UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BioDrain Medical, Inc.
(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or organization)

3842
(Primary Standard Industrial Classification Code Number)

33-1007393
(I.R.S. Employer Identification Number)

2060 Centre Point Blvd., Suite 7
Mendota Heights, Minnesota 55120
(651) 389-4800
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Kevin R. Davidson
Chief Executive Officer
2060 Centre Point Blvd., Suite 7
Mendota Heights, Minnesota 55120
(651) 389-4800
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

With a copy to:
Peter Hogan, Esq.
Richardson & Patel LLP
1100 Glendon Ave., Suite 850
Los Angeles, CA 90024
Tel.: (310) 208-1182
Fax: (310) 208-1154

FROM TIME TO TIME AFTER THE
EFFECTIVE DATE OF THIS REGISTRATION STATEMENT
(Approximate date of commencement of proposed sale to the public)

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☑

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☑

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Per Share Offering Price	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock, $.01 par value (issued and issuable pursuant to a Note Purchase Agreement entered into with the Selling Stockholder)	9,196,667(2)	$ 0.195(3)	$ 1,793,350	$ 205.52
Total				$ 205.52

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the "Securities Act").

(2) Pursuant to Rule 416 under the Securities Act, this registration statement shall be deemed to cover additional securities (i) to be offered or issued in connection with any provision of any securities purported to be registered hereby to be offered pursuant to terms which provide for a change in the amount of securities being offered or issued to prevent dilution resulting from stock splits, stock dividends, or similar transactions and (ii) of the same class as the securities covered by this registration statement issued or issuable prior to completion of the distribution of the securities covered by this registration statement as a result of a split of, or a stock dividend on, the registered securities.

(3) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act, based on the average of the high and low prices of the common stock of the registrant as quoted by the Over-the-Counter Bulletin Board on January 23, 2012.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and no offer to buy these securities is being solicited in any state where the offer or sale is not permitted.

Prospectus

BIODRAIN MEDICAL, INC.
9,196,667 shares of common stock

This prospectus covers the resale by a selling stockholder of up to 9,196,667 shares of our common stock, $.01 par value.

These securities will be offered for sale from time to time by the selling stockholder identified in this prospectus in accordance with the terms described in the section of this prospectus entitled "Plan of Distribution." We will not receive any of the proceeds from the sale of the common stock by the selling stockholder.

Our securities are not listed on any national securities exchange. Our common stock is currently quoted on the Over-the-Counter Bulletin Board under the symbol "BIOR.OB." The last reported per share price for our common stock was $0.195, as quoted by the OTC Bulletin Board on January 23, 2012.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 21.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2012

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under "Risk Factors." Some of the statements contained in this prospectus, including statements under this summary and "Risk Factors" as well as those noted in the documents incorporated herein by reference, are forward-looking statements and may involve a number of risks and uncertainties. We note that our actual results and future events may differ significantly based upon a number of factors. You should not put undue reliance on the forward-looking statements in this document, which speak only as of the date on the cover of this prospectus.

References to "we," "our," "us," the "Company," or "BioDrain" refer to BioDrain Medical, Inc., a Minnesota corporation.

Our Business

Founded in 2002 as a Minnesota corporation, we are an early stage medical device company. Our mission is to provide hospitals and surgical centers an effective, efficient, and affordable means to safely dispose of contaminated fluids generated in the operating room and other similar medical locations in a manner that protects healthcare workers from exposure and is environmentally friendly.

Financial Results

Our financial statements for the years ended December 31, 2010 and 2009 and for the nine months ended September 30, 2011 and 2010 are included in this prospectus. In 2010 and 2009, we had $288 and $15,737 in revenues, respectively, and approximately $1.4 million and $2.9 million in net loss, respectively. During the nine months ended September 30, 2011 and 2010, we had $22,638 and $288 in revenues, respectively, and $1.5 and $1.0 in net loss, respectively.

Risks Affecting Our Business

We are subject to a number of risks, which you should be aware of before deciding to purchase the securities in this offering. These risks are discussed in the summary below and in the section titled "Risk Factors."

General Information

Our address is 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800, and our website address is www.biodrainmedical.com.

The Offering

We are registering 9,196,667 shares of our common stock for sale by the selling stockholder identified in the section of this prospectus entitled "Selling Security Holders." Information regarding our common stock is included in the section of this prospectus entitled "Description of Securities."

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this prospectus, other than statements of historical facts, that address future activities, events, or developments, are forward-looking statements, including, but not limited to, statements containing the words "believe," "anticipate," "expect," and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Whether actual results will conform to the expectations and predictions of management, however, is subject to a number of risks and uncertainties that may cause actual results to differ materially. Such risks are in the section herein entitled "Risk Factors," and in our previous SEC filings.

Consequently, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

BUSINESS

Overview

We are an early stage medical device company, and our mission is to provide hospitals and surgical centers an effective, efficient, and affordable means to safely dispose of contaminated fluids generated in the operating room and other similar medical locations in a manner that protects healthcare workers from exposure and is environmentally friendly. We own patent rights to our products and will distribute our products to medical facilities where bodily and irrigation fluids produced during surgical procedures must be contained, measured, documented, and disposed. Our products minimize the exposure potential to the healthcare workers who handle such fluids. Our goal is to create products that dramatically reduce staff exposure without significant changes to established operative procedures, historically a major stumbling block to innovation and product introduction. In addition to simplifying the handling of these fluids, we believe our technologies will provide cost savings to facilities over the aggregate costs incurred today using the traditional canister method of collection, neutralization, and disposal. We intend to sell our products through independent distributors and manufacturer's representatives in the United States and Europe, initially, and eventually to other areas of the world.

We were founded as a Minnesota corporation in 2002 by Lawrence Gadbaw, who has over 40 years of experience in the medical devices field, Peter L. Morawetz, who has extensive experience consulting with development-stage companies in the medical and high technology field, and Jeffery K. Drogue. Our address is 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. Our telephone number is (651) 389-4800, and our website address is www.biodrainmedical.com.

Industry and Market Analysis

Infectious and Bio-hazardous Waste Management

There has long been recognition of the collective potential for ill effects to healthcare workers from exposure to infectious/bio-hazardous materials. Federal and state regulatory agencies have issued mandatory guidelines for the control of such materials, and in particular, bloodborne pathogens. The medical device industry has responded to this need by developing various products and technologies to limit exposure or to alert workers to potential exposure.

The presence of infectious materials is most prevalent in the surgical suite and post-operative care units where often, large amounts of bodily fluids, including blood, bodily and irrigation fluids are continuously removed from the patient during the surgical procedure. Surgical teams and post-operative care personnel may be exposed to these potentially serious hazards during the procedure via direct contact of blood materials or more indirectly via splash and spray.

According to the Occupational Safety and Health Administration ("OSHA"), workers in many different occupations are at risk of exposure to bloodborne pathogens, including Hepatitis B and C, and HIV/AIDS. First aid team members, housekeeping personnel, nurses and other healthcare providers are examples of workers who may be at risk of exposure.

In 1991, OSHA issued the Bloodborne Pathogens Standard to protect workers from this risk. In 2001, in response to the Needlestick Safety and Prevention Act, OSHA revised the Bloodborne Pathogens Standard. The revised standard clarifies (and emphasizes) the need for employers to select safer needle devices and to involve employees in identifying and choosing these devices. The revised standard also calls for the use of "automated controls" as it pertains to the minimization of healthcare exposure to bloodborne pathogens. Additionally, employers are required to have an exposure control plan that includes universal precautions to be observed to prevent contact with blood or other potentially infectious materials, such as implementing work practice controls, requiring personal protective equipment and regulating waste and waste containment. The exposure control plan is required to be reviewed and updated annually to reflect new or modified tasks and procedures, which affect occupational exposure and to reflect changes in technology that eliminate or reduce exposure to bloodborne pathogens.

According to the American Hospital Association's (AHA) Hospital Statistics, 2008 edition, America's hospitals performed 70 million surgeries. This number does not include the many procedures performed at surgery centers across the country.

The majority of these procedures produce potentially infectious materials that must be disposed with the lowest possible risk of cross-contamination to healthcare workers. Current standards of care allow for these fluids to be retained in canisters, which are located in the operating room where they can be monitored throughout the surgical procedure. Once the procedure is complete these canisters and their contents are disposed using a variety of methods all of which include manual handling and result in a heightened risk to healthcare workers for exposure to their contents. A publicly available Frost & Sullivan research report from April 24, 2006 estimates that 60,000,000 suction canisters are sold each year and the estimated market value of canisters is upwards of $120,000,000.

According to the average estimate of three manufacturers and three different solidifiers as reported in a research report by Frost & Sullivan in 2003 and in an article titled "Liquid Waste Management & Disposal" that was published in *Infection Control Today* in 2006, there is an average cost of $2.00 per canister, $2.00 per container of solidification powder and an average disposal cost of $0.30/lb of infectious waste at approximately 7.5 lbs per canister, the estimated disposal cost to the hospitals who use solidifiers is $6.25 per canister. This cost increases significantly for disposal of higher capacity containers.

A study by the Lewin Group, prepared for the Health Industry Group Purchasing Association in April, reports that infectious fluid waste accounts for more than 75% of U.S. hospitals biohazard disposal costs. The study also includes findings from a bulletin published by the University of Minnesota's Technical Assistance Program, "A vacuum system that uses reusable canisters or empties directly into the sanitary sewer can help a facility cut its infectious waste volume, and save money on labor, disposal and canister purchase costs." The Minnesota's Technical Assistance Program bulletin also estimated that, in a typical hospital, "...$75,000 would be saved annually in suction canister purchase, management and disposal cost if a canister-free vacuum system was installed."

We expect the hospital surgery market to continue to increase due to population growth, the aging of the population, expansion of surgical procedures to new areas, for example, use of the endoscope, which requires more fluid management, and new medical technology. According to the American Institute of Architects Consensus Construction Forecast, "Health care is expected to see even stronger growth. With recent emphasis on increasing health-care coverage, including several state mandates for universal or near-universal coverage, health-care construction has become one of the fastest growing institutional construction categories. Panel members are projecting an 8.5 percent increase in spending in 2009, followed by an additional 5 percent gain in 2010."

There are currently approximately 40,000 operating rooms and surgical centers in the U.S. (AHA, *Hospital Statistics*, 2008). The hospital market has typically been somewhat independent of the U.S. economy; therefore we believe that our targeted market is not cyclical, and the demand for our products will not be heavily dependent on the state of the economy. We benefit by having our products address both the procedure market of nearly 70 million procedures (AHA, *Beyond Health Care*, January 2009) as well as the hospital operating room market (approximately 40,000 operating rooms).

Current Techniques of Collecting Infectious Fluids

Typically, during the course of the procedure, fluids are continuously removed from the surgical site via wall suction and tubing and collected in large canisters (1,500 - 3,000 milliliters (ml) capacity or 1.5 – 3.0 liters) adjacent to the surgical table.

These canisters, made of glass or high impact plastic, have graduated markers on them allowing the surgical team to make estimates of fluid loss in the patient both intra-operatively as well as for post-operative documentation. Fluid contents are retained in the canisters until the procedure is completed, or until the canister is full and needs to be removed. During the procedure the surgical team routinely monitors fluid loss using the measurement calibrations on the canister and by comparing these fluid volumes to quantities of saline fluid introduced to provide irrigation of tissue for enhanced visualization and to prevent drying of exposed tissues. After the procedure is completed the fluids contained in the canisters are measured and a calculation of total blood loss is determined. This is done to ensure no excess fluids of any type remain within the body cavity or that no excessive blood loss has occurred, both circumstances that may place the patient at an increased risk post-operatively.

Once total blood loss has been calculated, the healthcare personnel must dispose of the fluids. This is typically done by manually transporting the fluids from the operating room to a waste station and directly pouring the material into a sink that drains to the sanitary sewer where it is subsequently treated by the local waste management facility, a process that exposes the healthcare worker to the most risk for direct contact or splash exposure. Once emptied these canisters are placed in large, red pigmented, trash bags and disposed of as infectious waste – a process commonly referred to as "red-bagging."

Alternatively, the canisters may be opened in the operating room and a gel-forming powder is poured into the canister, rendering the material gelatinous. These gelled canisters are then red-bagged in their entirety and removed to a bio-hazardous/infectious holding area for disposal. In larger facilities the canisters, whether pre-treated with gel or not, are often removed to large carts and transported to a separate special handling area where they are processed and prepared for disposal. Material that has been red-bagged is disposed of separately, and more expensively, from other medical and non-medical waste by companies specializing in that method of disposal.

Although all of these protection and disposal techniques are helpful, they represent a piecemeal approach to the problem and fall short of providing adequate protection for the surgical team and other workers exposed to infectious waste. A major spill of fluid from a canister, whether by direct contact as a result of leakage or breakage, splash associated with the opening of the canister lid to add gel, while pouring liquid contents into a hopper, or during the disposal process, is cause for concern of acute exposure to human blood components–one of the most serious risks any worker faces in the performance of his or her job. Once a spill occurs, the entire area must be cleaned and disinfected and the exposed worker faces a potential of infection from bloodborne pathogens. These pathogens include, but are not limited to, HIV, HPV, and other infectious agents. Given the current legal liability environment the hospital, unable to identify at-risk patients due to concerns over patient rights and confidentiality, must treat every exposure incident as a potentially infectious incident and treat the exposed employee according to a specific protocol that is both costly to the facility and stressful to the affected employee and his or her co-workers. In cases of possible exposure to communicable disease, the employee could be placed on paid administrative leave, frequently involving worker's compensation, and additional workers must be assigned to cover the affected employee's responsibilities. The facility bears the cost of both the loss of the affected worker and the replacement healthcare worker in addition to any ongoing health screening and testing of the affected worker to confirm if any disease has been contracted from the exposure incident. Employee morale issues also weigh heavily on staff and administration when a healthcare worker suffers a potentially serious exposure to bloodborne pathogens. Canisters are the most prevalent means of collecting and disposing of infectious fluids in hospitals today. Traditional, non-powered canisters and related suction and fluid disposable products are exempt and do not require FDA clearance. We believe that our virtually hands free technology will (a) significantly reduce the risk of healthcare worker exposure to these infectious fluids by replacing canisters, (b) further reduce the risk of worker exposure when compared to powered canister technology that requires transport to and from the operating room, (c) reduce the cost per procedure for handling these fluids, and (d) enhance the surgical team's ability to collect data to accurately assess the patient's status during and after procedures.

In addition to the traditional canister method of waste fluid disposal, several new powered medical devices have been developed which address some of the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc. and Stryker Instruments have all developed systems that provide for disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders and most are sold with 510(k) concurrence from the FDA. Cardinal Health, Inc. has received 510(k) concurrence to market a similar device that it has recently started advertising. Most of these competing products continue to utilize some variant on the existing canister technology, and while not directly addressing the canister, most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs. Our existing competitors that already have products on the market have a clear competitive advantage over us in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early stage company like ours. We believe that Stryker Instruments has the dominant market share position. We do not believe Cardinal Health, Inc., though having FDA concurrence, has made significant sales into the market.

Products

The Streamway™ Fluid Management System ("FMS")

The Streamway™ FMS, a fluid collection and measurement system, addresses the need for a simple, safe, virtually hands-free, touch-screen computer-controlled, method of removing, retaining, calculating fluid loss, and disposing of fluid waste during operative procedures. The FMS will replace the manual process of collecting fluids in canisters and transporting and dumping in sinks outside of the operating room that is still being used by many hospitals and surgical centers. The manual process, involving canisters, requires that the operating room personnel open the canisters that contain waste fluid, often several liters, at the end of the surgical procedure and either add a solidifying agent or empty the canisters in the hospital drain system. Some facilities require that used canisters be cleaned by staff and reused. It is during these processes that there is increased potential for contact with the waste fluid through splashing or spills. The FMS eliminates the use of canisters and these cleaning and disposal steps by collecting the waste fluid in the internal collection chamber and automatically disposing of the fluid with no handling by personnel. Near the end of each procedure, a proprietary cleaning fluid is attached to the FMS and an automatic cleaning cycle ensues, making the FMS ready for the next procedure. The cleaning fluid bottle is attached to the port on the FMS device. The cleaning fluid bottle and its contents are not contaminated and are used to clean the internal fluid pathway in the FMS device to which personnel have no exposure. During the cleaning cycle, the cleaning fluid is pulled from the bottle into the FMS, and then disposed in the same manner as the waste fluid from the surgical case. At the end of the cleaning cycle, the bottle is discarded. Any suction tubing used during the procedure must be disposed of in the same manner as suction tubing used with the canister system. Handling of this tubing does present the potential for personnel exposure but that potential is minimal.

We believe our product provides substantial cost savings and improvements in safety in facilities that still use manual processes. In cases where healthcare organizations re-use canisters, the FMS cleaning process eliminates the need for cleaning of canisters for re-use. The FMS reduces the safety issues facing operating room nurses, the cost of the handling process, and the amount of infectious waste generated when the traditional method of disposing of canisters is used. The FMS is fully automated, does not require transport to and from the operating room and eliminates any canister that requires emptying. It is positioned to penetrate its market segment due to its virtually hands free operation, simple design, ease of use, and efficiency in removal of infectious waste with minimal exposure of operating room personnel to potentially infectious material.

In contrast to competitive products, the wall-mounted FMS does not take up any operating room floor space and it does not require the use of any external canisters or handling by operating room personnel. It does require a dedicated system in each operating room where it is to be used. With the exception of MD Technologies, Inc., the FMS will be the only known system that is wall-mounted and designed to collect, measure and dispose of, surgical waste. The product from DeRoyal does not collect surgical waste fluid and is used in conjunction with traditional canisters to assist in emptying the canisters. Other systems on the market are portable, meaning that they are rolled to the bedside for the surgical case and then rolled to a cleaning, after the surgery is complete, and use canisters, which still require processing or require a secondary device (such as a docking station) to dispose of the fluid in the sanitary sewer after it has been collected. They are essentially powered canisters. A comparison of the key features of the devices currently marketed and the FMS is presented in the table below.

Key Feature Comparison

Feature	BioDrain Medical, Inc.	Stryker Instruments	DeRoyal	Dornoch Medical Systems, Inc.	MD Technologies, Inc.
Portable to Bedside vs. Fixed Installation	Fixed	Portable	Fixed	Portable	Fixed
Uses Canisters	No	Yes	Yes	Yes	No
Secondary Installed Device Required for Fluid Disposal	No	Yes	Yes	Yes	No
Numeric Fluid Volume Measurement	Yes	Yes	No	Yes	Optional
Unlimited Fluid Capacity	Yes	No	No	No	Yes
Continuous, Uninterrupted Vacuum	Yes	No	No	No	No
Installation Requirements:					
Water	No	Yes	Yes	Yes	No
Sewer	Yes	Yes	Yes	Yes	Yes
Vacuum	Yes	Yes	Yes	Yes	Yes

The FMS system may be installed on or in the wall during new construction or renovation or installed in a current operating room by connecting the device to the hospital's existing sanitary sewer drain and wall suction systems. With new construction or renovation, the system will be placed in the wall and the incremental costs are minimal, limited to connectors to the hospital drain and suction systems (which systems are already required in an operating room), the construction of a frame to hold the FMS in position, and minimal labor. The fluid collection chamber is internal to the FMS unit and requires no separate installation. Based upon our consultations with several architects, we believe that there is no appreciable incremental expense in planning for the FMS system during construction.

For on-the-wall installation in a current operating room, the location of the FMS may be chosen based on proximity to the existing hospital drain and suction systems. Installation will require access to those systems through the wall and connection to the systems in a manner similar to that for within-the-wall installation. The FMS system is mounted on the wall using a mounting bracket supplied with the system and standard stud or drywall attachments.

By comparison, the majority of competing products are mobile, allowing movement from room to room. The mobility adds time and labor to the process and increases the chance of worker exposure to waste fluids but also allows the hospital to potentially purchase less than one mobile unit for each operating room. With the FMS, a unit much be installed in each room where it is intended to be used.

Once installed, the FMS has two inflow ports positioned on the front of the device that effectively replace the current wall suction ports most commonly used to remove fluids during surgery. Additionally, a disposable external filter, which is provided as part of our disposable cleaning kit, allows for expansion to two inflow suction ports per filter.

Although the FMS is directly connected to the sanitary sewer, helping to reduce potential exposure to infectious fluids, it is possible that installation of the system will cause inconvenience and lost productivity as the operating rooms will need to be temporarily shut down. In addition, remodel work may be necessary in preparation for, or as a result of, an installation. In some cases, the costs to rework plumbing lines to accommodate the system may outweigh the expected savings and/or lengthen the expected return on investment time.

One of the current techniques utilized by Stryker, Cardinal Health, and other smaller companies typically utilizes two to eight canisters positioned on the floor or on elaborate rolling containers with tubing connected to the hospital suction system and to the operative field. Once the waste fluids are collected, they must be transported out of the operating room and disposed of using various methods. These systems take up floor space in and around the operating room and require additional handling by hospital personnel, thereby increasing the risk of exposure to infectious waste fluids generated by the operating room procedure. Handling infectious waste in this manner is also more costly.

The FMS suctions potentially infectious fluid from the patient through standard surgical tubing into the FMS. There the fluid is separated from the air stream and deposited into a fluid chamber where it is retained until a measurement cycle is initiated. Once a certain fluid level is reached in the chamber a solenoid switch is opened and the fluid is pumped from the fluid chamber using a pump. The action of the pump removes the fluid and measures the quantity of the fluid as it is removed. This volume measurement is then continuously transmitted to a computer display, which allows the surgical team to immediately assess the total amount of fluid removed from the patient at that point in the procedure. The fluid removed from the fluid chamber is passed through the pump and transported directly to the hospital sanitary sewer.

The FMS has undergone significant testing and has now been utilized in over 700 live surgeries. We do not currently have sufficient resources to fund the potential ramp-up in production and will need to raise a minimum of $1 million to fund this activity. We can provide no assurance that this funding will be available at attractive prices or at all. We currently utilize Miller Technical Services in Detroit, Michigan, an ISO 13485-certified outsource manufacturing organization, as our manufacturer and will continue this relationship at least until such time as it may make sense to vertically integrate this process.

We filed a 510(k) submission in March 2009 and received written FDA clearance on April 1, 2009. The unit is classified as a Class II device by the FDA.

A summary of the features of the wall unit include:

- Minimal Human Interaction. The wall-mounted FMS provides a small internal reservoir that keeps surgical waste isolated from medical personnel and disposes the medical waste directly into the hospital sanitary sewer with minimal medical personnel interaction. This minimal interaction is facilitated by the automated electronic controls and computerized LCD touch-screen allowing for simple and safe single touch operation of the FMS.

- Fluid Measurement. The FMS volume measurement allows for in-process, accurate measurement of blood/saline suctioned during the operative procedure, and eliminates much of the estimation of fluid loss currently practiced in the operating room. This will be particularly important in minimally invasive surgical procedures, where accounting for all fluids, including saline added for the procedure, is vital to the operation. The surgical team can view in real time the color of the extracted or evacuated fluid through the viewing window on the FMS.

- Disposable Cleaning Kit. A single-use, disposable cleaning kit that is used for the automated cleaning cycle at the conclusion of each procedure prepares the FMS for the next use, reducing operating room turnover time. The cleaning kit includes the BioDrain proprietary cleaning fluid for cleaning the internal tubing, pathways, and chamber within the FMS unit and a disposable external filter required for each surgical procedure. The cleaning solution bottle is attached to the FMS with a cleaning fluid adapter, which is designed to mate with the special connector on the FMS. One or two filters, depending on the type of procedure, will be supplied with each bottle of cleaning fluid for each use of the FMS. The disposable cleaning fluid bottle collapses at the end of the cleaning cycle rendering it unusable; therefore it cannot be refilled with any other solution. The instructions for use clearly state that the FMS cleaning fluid, and only the FMS cleaning fluid, must be used with the FMS following each surgical case. The cleaning fluid is expected to be a substantial revenue generator for the life of the FMS.

- Ease of Use. The FMS simply connects to the existing suction tubing from the operative field (causing no change to the current operative methods). Pressing the START button on the FMS touch screen causes the suction tip to operate similarly to preexisting systems, thereby minimizing the learning curve for operation at the surgical site.

- Installation. We will arrange installation of the FMS products through a partnership or group of partnerships. Such partnerships will include, but not be limited to, distribution partners, manufacturer's representatives, hospital supply companies and the like. We will train our partners and standardize the procedure to ensure the seamless installation of our products. The FMS is designed for minimal interruption of operating room and surgical room utilization. Plug-and-play features of the design allow for almost immediate connection and hook up to hospital utilities for wall-mounted units allowing for quick start-up post-installation.

- Sales Channel Partners. We expect the FMS will be sold to end-users through a combination of independent stocking distributors, manufacturer's representatives, and direct sales personnel. We intend for all personnel involved in direct contact with the end-user will have extensive training and will be approved by BioDrain. We plan to maintain exclusive agreements between BioDrain and the sales channel partners outlining stocking expectations, sales objectives, target accounts and the like. Contractual agreements with the sales channel partners will be reviewed on an annual basis and expect that such agreements will contain provisions allowing them to be terminated at any time by BioDrain based on certain specified conditions.

- Competitive Pricing. The estimated sales price to a hospital or surgery center is in the range of $15,000 - $18,000 per system (one per operating room - installation extra) and $15 - $20 per unit retail for the proprietary consumable kit to the U.S. hospital market.

Patents and Intellectual Property

We spent approximately $10,000 in 2010 and approximately $71,000 in 2009 on research and development. During the nine months ended September 30, 2011, we had no R&D costs.

We received a European patent in April 2007 (Patent No. EP1539580), a U.S. patent in December 2008 (U.S. Patent No. 7,469,727), and a Canadian patent in April 2011 (Number 2,495,747) (collectively, the "Patents"). These Patents will expire on August 8, 2023. We also have a divisional application pending before the U.S. Patent Office. A feature claimed in the Patents is the ability to continue suctioning waste fluids into a collection chamber, to measure the fluid collected, and to pump that collected fluid from the collection chamber all while negative pressure is being maintained. This provides for continuous operation of the FMS unit in suctioning waste fluids, which means that the unit never has to be shut off or paused during a surgical operation, for example, to empty a fluid collection container or otherwise dispose of the collected fluid. We believe that this continuous operation feature provides us with a significant competitive advantage, particularly on large fluid generating procedures. All competing products, except for MD Technologies, have a finite fluid collection capacity necessitating that the device be emptied when capacity is reached during the surgical procedure. In the case of MD Technologies their system has an unlimited capacity but the process is not continuous because they have to interrupt the process to manually switch over to a new container and drain the original container in order to have it ready for use when the second container is full.

In June 2008, we completed and executed an agreement with Marshall C. Ryan, the named inventor of the Patents, to secure exclusive ownership of the Patents. In exchange for the transfer of his ownership interests in the Patents, we paid Mr. Ryan a combination of cash and warrants, agreed to pay him 4% royalty on FMS sales for the life of the Patents and agreed to make additional payments if there is a change in control of the Company (defined in the agreement as either 50% or more of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity). At the signing of the agreement, we paid Mr. Ryan $75,000 and agreed to pay Mid-State Stainless, Inc., a corporation wholly owned by Mr. Ryan, an additional $100,000 payment on June 30, 2009 for past research and development activities. We also granted Mr. Ryan a 5-year warrant to purchase 150,000 shares of our common stock at a price of $.35 per share. The warrant expires on June 30, 2013. Should there be a change in control of the Company, we will pay Mr. Ryan a total of $2 million to be paid out over the life of the U.S. patent if the change in control occurs within 12 months of the first sale of any products, or $1 million to be paid out over the life of the U.S. patent if the change in control occurs between 12 and 24 months of the first sale of any products, or $500,000 to be paid out over the life of the U.S. patent if the change in control occurs between 24 and 36 months of the first sale of any product. The first royalty payment of approximately $600 was issued in March 2011 for all revenue-to-date on the sales of Streamway™ systems.

Our competitive advantage, based upon the Patents, would be lost if these Patents were found to be invalid in the jurisdictions in which we sell or plan to sell our products. No assurance can be given that any measure we implement will be sufficient to protect our intellectual property rights or that we could afford to take such measures. If we cannot protect our rights, we may lose our competitive advantage. There is no assurance that any of these protections can be maintained or that they will afford us a meaningful competitive advantage. Moreover, if it is determined that our products infringe on the intellectual property rights of third parties, we may be prevented from marketing our products.

In 2002, two individuals, Jay D. Nord and Jeffrey K. Drogue, who are no longer affiliated with the Company, filed a provisional patent application disclosing a particular embodiment for a medical waste fluid collection system (the "Nord/Drogue Embodiment"). The Nord/Drogue Embodiment included a separation chamber and a collection chamber. A negative pressure source in communication with the separation chamber would cause liquid surgical waste to be drawn into the separation chamber. When the amount of collected liquid reached a high level sensor, a valve would open in the bottom of the separation chamber to allowing the collected liquid to flow by gravity into the collection chamber below. When the liquid flowing into the collection chamber reached a high level sensor, the valve would close. A second valve would then open allowing the known volume within the collection chamber to flow by gravity into a drain. Each time the collection chamber was emptied, the known volume of the collection chamber was added to the total collected volume.

We engaged the services of Marshall C. Ryan to further develop the medical waste fluid collection system for commercialization. Mr. Ryan conceived of an alternative embodiment for the medical waste fluid collection system (the "Ryan Embodiment"). In the Ryan Embodiment, a pump was utilized to measure and discharge the collected fluid while negative pressure was maintained in the separation and collection chambers. An international (PCT) application was timely filed disclosing both the Nord/Drogue Embodiment and the Ryan Embodiment. National stage applications were subsequently timely filed in the U.S., Europe and Canada based on the PCT application. During prosecution of the U.S. and European national stage applications, the claims directed to the Nord/Drogue Embodiment were rejected as being unpatentable of the prior art. Accordingly, the claims directed to the Nord/Drogue Embodiment were canceled and the remaining claims were amended to specifically claim only the Ryan Embodiment. It was learned during prosecution of the U.S. and European applications that Mr. Ryan was inadvertently omitted as a named inventor. Appropriate documents were then filed with the European and U.S. patent offices to add Mr. Ryan as a named inventor. Additionally, pursuant to U.S. patent law, because the claims directed to the Nord/Drogue Embodiment were canceled, leaving only the Ryan Embodiment claimed, appropriate documents were filed to remove Messrs. Nord and Drogue as named inventors. The U.S. patent and the European patent were allowed after the claims were amended to relate solely to the Ryan Embodiment. The Canadian patent was issued to the Company in April 2011.

We filed a divisional application with the U.S. Patent Office with claims directed to the method of use of the Ryan Embodiment. We also filed a Continuation-In-Part (CIP) application to cover additional features and functionalities of our FMS.

We have not communicated with Mr. Nord or Mr. Drogue since notifying them that they have been removed as inventors of the then-pending patent applications. We are not aware of any current intention by Mr. Nord or Mr. Drogue to challenge ownership or inventorship of the Patents. We believe that Messrs. Nord and Drogue have no valid claims of inventorship or ownership of the Patents. Even if Mr. Nord or Mr. Drogue were to assert such a claim, we believe that, independent of our dealings with them, we obtained rights to the Patents from Mr. Ryan, who even if found not to be the sole inventor of the subject matter of the claims of the Patents, is at least a joint inventor. As a joint inventor, he would have co-ownership interest in the Patents and would have the power to transfer to us his undivided co-ownership interest in the Patents.

Our system, based on our patents, includes a cleaning kit that contains a pre-measured amount of a cleaning solution for cleaning the suction unit before a subsequent use. We have obtained an exclusive distribution agreement with a manufacturer of the fluid we will use in the cleaning kit for our FMS. While the distribution agreement will allow use of the fluid in connection with our devices, we do not expect to acquire ownership of any patent rights or claims pertaining to such fluid.

The Disposable Kit

The disposable kit is an integral, critical component of the FMS and our total value proposition to the customer. It consists of a proprietary, pre-measured amount of cleaning solution in a plastic bottle that attaches to the FMS. The disposal cleaning kit also includes an in-line filter with two suction ports. The proprietary cleaning solution placed in the specially designed holder is attached and recommended to be used following each surgical procedure. Due to the nature of the fluids and particles removed during surgical procedures, the FMS is recommended to be cleaned following each use. Utilizing the available vacuum of the wall system, the proprietary cleaning fluid is drawn into the FMS to provide a highly effective cleaning process that breaks up bio-film at the cellular level. Proper cleaning is required for steady, dependable and repeated FMS performance and for maintenance of the warranty of the FMS.

The BioDrain disposable kit is a critical component of our business model. The kit has the "razor blade business model" characteristic with an ongoing stream of revenue for every FMS unit installed, and revenues from the sale of the kits are expected to be significantly higher over time than the revenues from the sales of the unit. We have exclusive distribution rights to the fluid and facilitate the use of only our fluid for cleaning following procedures by incorporating a special adapter to connect the fluid to the connector on the FMS system. We will also tie the fluid usage, which we will keep track of with the FMS software, to the product warranty. While it could be possible for other manufacturers to provide fluids for utilization in this process, it would require that they manufacture an adapter compatible with our connector on the FMS, obtain a container that fit in the specially designed container holder on the FMS and perform testing to demonstrate that any other fluid would not damage the FMS. We believe that these barriers and the warranty control will allow us to achieve substantial revenue from our cleaning fluid. The instructions for use that accompanies the product will clearly state how the fluid is to be hooked up to the FMS machine. Further, a diagram on the FMS will also assist the user in attaching the fluid bottle to the machine. This will be a very simple task, and we do not anticipate that any training of operating room staff will be necessary.

All installations of our FMS product will be completed by a service and maintenance organization that is familiar with completing such installations in health care settings. We have had conversations with multiple providers and we have signed an agreement with Belimed to perform this function. The general availability of these types of service and maintenance personnel in the health care sector should not hinder us from forming a beneficial relationship in this area.

Corporate Strategy

We intend to succeed by deploying a strategy of focused expansion within our core product and market segments, while utilizing a progressive approach to manufacturing and marketing to ensure maximum flexibility and profitability.

Our strategy is to:

- *Develop a complete line of wall-mounted fluid evacuation systems for use in hospitals and free standing surgery centers as well as clinics and physicians' offices.* Initially, we have developed the FMS to work in hospital operating rooms and surgical centers. This device was developed for use with the wall vacuum suction currently installed in hospitals. Opportunities for future products include an FMS developed for post-operation and recovery rooms with multiple inlet ports and multiple volume measurements.

- *Provide products that greatly reduce worker and patient exposure to harmful materials present in infectious fluids and that contribute to an adverse working environment.* As one of the only stand-alone surgical fluid disposal systems directly connected to the sanitary sewer, the FMS could advance the manner in which such material is collected, measured and disposed of in operating rooms, post-operating recovery, emergency rooms and intensive care settings by eliminating the need to transport a device to the patient bedside and remove it for emptying and cleaning at the end of the procedure. The cost of such exposures, measured in terms of human suffering, disease management costs, lost productivity, liability or litigation, will be, when properly leveraged, the strongest motivating factor for facilities looking at investing in the FMS line of products.

- *Utilize existing medical products independent distributors and manufacturer's representatives to achieve the desired market penetration.* Contacts have been established with several existing medical products distributors and manufacturer's representatives and interest has been generated regarding the sales of the FMS and cleaning kits. In addition to their normal sales practices, the distributors will carry a significant supply of disposable kits for their current customers and could purchase an FMS for demonstration to new potential customers.

- *Continue to utilize operating room consultants, builders and architects as referrals to hospitals and day surgery centers.* To date, referrals have been received from this group resulting in several potential sales and a potential beta site. These referrals have shortened the time frame for contacting and demonstrating the FMS to potential customers as well as providing us with valuable responses to the FMS from the customer base, the vast majority of which have been extremely positive to date.

- *Utilize a Medical Advisory Board to assist in market penetration.* We have a Medical Advisory Board consisting of a pioneering surgeon, two operating room consultants and a nurse anesthetist to assist us in understanding the needs of our market and ways to better serve that market. From time to time executive management may elect to change the composition of the Medical Advisory Board, including but not limited to, expanding the size of the Medical Advisory Board.

Other strategy may also include:

- Employing a lean operating structure, while utilizing the latest trends and technologies in manufacturing and marketing, to achieve both market share growth and projected profitability.
- Providing a leasing program and/or "pay per use" program as alternatives to purchasing.
- Providing service contracts to establish an additional revenue stream.
- Utilizing the international manufacturing experience of our management team to develop international sources of supply and manufacturing to take advantage of the lower cost of labor and materials while still obtaining excellent quality. While cost is not a major consideration in the roll-out of leading edge products, we believe that being a low-cost provider will be important long term.
- Offering an innovative warranty program that is contingent on the exclusive use of our disposable kit to insure the success of our after-market disposable products.

Technology and Competition

Fluid Management for Surgical Procedures

The management of infectious fluids produced during and after surgery is a complex mix of materials and labor that consists of primary collection of fluid from the patient, transportation of the waste fluid within the hospital to a disposal or processing site and disposal of that waste either via incineration or in segregated landfills.

Once the procedure has ended, the canisters currently being used in many cases, and their contents must be removed from the operating room and disposed. There are several methods used for disposal, all of which present certain risks to the operating room team, the crews who clean the rooms following the procedure and the other personnel involved in their final disposal. These methods include:

- *Direct Disposal Through the Sanitary Sewer*. In virtually all municipalities, the disposal of liquid blood may be done directly to the sanitary sewer where it is treated by the local waste management facility. This practice is approved and recommended by the EPA. In most cases these municipalities specifically request that disposed bio-materials not be treated with any known anti-bacterial agents such as glutalderhyde, as these agents not only neutralize potentially infectious agents but also work to defeat the bacterial agents employed by the waste treatment facilities themselves. Disposal through this method is fraught with potential exposure to the service workers, putting them at risk for direct contact with these potentially infectious agents through spillage of the contents or via splash when the liquid is poured into a hopper – a specially designated sink for the disposal of infectious fluids. Once the infectious fluids are disposed of into the hopper, the empty canister is sent to central processing for re-sterilization (glass and certain plastics) or for disposal in the bio-hazardous/infectious waste generated by the hospital (red-bagged).

- *Conversion to Gel for Red-Bag Disposal.* In many hospital systems the handling of this liquid waste has become a liability issue due to worker exposure incidents and in some cases has even been a point of contention during nurse contract negotiations. Industry has responded to concerns of nurses over splash and spillage contamination by developing a powder that, when added to the fluid in the canisters, produces a viscous, gel-like substance that can be handled more safely. After the case is completed and final blood loss is calculated, a port on the top of each canister is opened and the powder is poured into it. It takes several minutes for the gel to form, after which the canisters are placed on a service cart and removed to the red-bag disposal area for disposal with the other infectious waste. There are four major drawbacks to this system:

    - It does not ensure protection for healthcare workers, as there remains the potential for splash when the top of the canister is opened.

    - Based on industry pricing data, the total cost per canister increases by approximately $2.00.

    - Disposal costs to the hospital increase dramatically as shipping, handling and landfill costs are based upon weight rather than volume in most municipalities. The weight of an empty 2,500 ml canister is about 1 pound. A canister and its gelled contents weigh about 7.5 pounds.

    - The canister filled with gelled fluid must be disposed; it cannot be cleaned and re-sterilized for future use.

Despite the increased cost of using gel and the marginal improvement in health care worker protection it provides, several hospitals have adopted gel as their standard procedure.

Drainage Systems

Several new medical devices have been developed which address some of the deficiencies described above. MD Technologies, Inc., DeRoyal (formerly Waterstone), Dornoch Medical Systems, Inc. and Stryker Instruments have all developed systems that provide disposal into the sanitary sewer without pouring the infectious fluids directly through a hopper disposal or using expensive gel powders. All of these newer products are currently sold with 510(k) concurrence from the FDA. Cardinal Health, Inc. has received 510(k) concurrence to market a similar device that it has started advertising. Most of these competing products incorporate an internal collection canister with finite capacity, and while not directly eliminating the need to transport a device to and from the surgical room, we believe most have been successful in eliminating the need for expensive gel and its associated handling and disposal costs.

Existing competitors, that already have products on the market, have a competitive advantage in terms of brand recognition and market exposure. In addition, the aforementioned companies have extensive marketing and development budgets that could overpower an early stage company like ours. We believe that Stryker Instruments has the dominant market share position. Cardinal Health, Inc., though having FDA concurrence, has only recently started advertising its product. We also believe competing products are used in select procedures and often in some, but not all, surgical procedures.

Current Competition, Technology, and Costs

Single Use Canisters

In the U.S., glass reusable containers are infrequently used as their high initial cost, frequent breakage and costs of reprocessing are typically more costly than single use high impact plastic canisters, even when disposal is factored in. Each single use canister costs roughly $2.00 each and it is estimated that a range of two to eight canisters are used in each procedure, depending on the operation.

Our FMS would replace the use of canisters and render them unnecessary, as storage and disposal would be performed automatically by the FMS. It should be noted that these canisters are manufactured by companies with substantially more resources than our Company. Cardinal Health, a very significant competitor, manufacturers both single use canisters as well as a more automated fluid handling system that will compete with us. Accordingly, faced with this significant competition, we may have difficulty penetrating this market.

Solidifying Gel Powder

The market potential for solidifying gel was estimated by industry publications at over $100 million in 2002. This market is not yet fully realized, but many hospitals, responding to increased concerns over inadvertent worker exposure to liquid waste, are converting to this technology. There have been many reports (Allina and Fairview to name two Minneapolis-based health systems) of nursing contracts containing language that requires the facilities to use gels after every procedure. We are aware that at a large healthcare facility in Minneapolis, Minnesota, routine usage of gel increased annual operating room expenditures by $63,000, based on 14,000 procedures done in 2006. It is clear that solidifying gels, while not providing complete freedom from exposure to workers does present a level of safety and peace of mind to the healthcare workers who handle gel-treated canisters. While several gel manufacturers proclaim that sterility of the contents is achieved with the use of their product, protocols continue to recommend that the red-bag procedure is followed when using these products. One significant drawback of the solidifying gels is that they increase the weight of the materials being sent to the landfill by a factor of five to seven times, resulting in a significant cost increase to the hospitals that elect to use the products.

The FMS eliminates the need for solidifying gel, providing savings in both gel powder usage and associated landfill costs.

Sterilization and Landfill Disposal

Current disposal methods include the removal of the contaminated canisters (with or without the solidifying gel) to designated bio-hazardous/infectious waste sites. Previously many hospitals used incineration as the primary means of disposal, but environmental concerns at the international, domestic and local level have resulted in a systematic decrease in incineration worldwide as a viable method for disposing of blood, organs or materials saturated with bodily fluids. When landfill disposal is used, canisters are included in the general red-bag disposal and, when gel is used, comprise a significant weight factor. Where hopper disposal is still in use, most of the contents of the red-bag consist only of outer packaging of supplies used in surgery and small amounts of absorbent materials impregnated with blood and other waste fluid. These, incidentally, are retained and measured at the end of the procedure to provide a more accurate assessment of fluid loss or retention. Once at the landfill site, the red-bagged material is often steam-sterilized with the remaining waste being ground up and interred into a specially segregated waste dumpsite.

On a related note, many countries are struggling with landfills within their own borders, and a thriving and growing biohazardous/infectious waste disposal business is emerging. The inevitable disputes connected with such a highly charged and potentially politically sensitive topic have developed, particularly in Europe and the former Soviet Republics, over the disposition and disposal of these infectious wastes. Such disputes have also arisen in the U.S. as states lacking landfill capacity (New Jersey, for example) seek to offload their medical waste on less populous states or those which lack stringent enforcement.

Moreover, as incineration increasingly loses its appeal, and as individual countries and states reject importation of infectious materials, the disposal of these fluids may take on more important political and environmental overtones. For example, there are several recent rulings within the European Union that resulted in medical waste being categorized as a tradable commodity meaning that no member country can reject medical waste from another European Union partner. Germany, which used to dump its medical waste in the former East Germany, is now exporting its waste to Belgium and France. France in particular is fighting this waste and wants Germany to deal with its own waste within its own borders. In other parts of the world, landfills are often habitated by otherwise homeless or poverty level people, who scavenge the sites for food and clothing, and often come into contact with blood soaked medical waste. Disposal of fluid down the sanitary sewer and elimination of large numbers of canisters from the volume of red-bag material, while not addressing all of the concerns regarding landfills, would certainly reduce the amount of disposed and blood impregnated waste.

By eliminating large numbers of canisters and the gel powder, our FMS products would dramatically reduce costs and the amount of canisters sent to landfills.

Handling Costs

Once the surgical team has finished the procedures, and a blood loss estimate is calculated, the liquid waste (with or without solidifying gels) is removed from the operating room and either disposed of down the sanitary sewer or transported to an infectious waste area of the hospital for later removal.

The FMS would significantly reduce the labor costs associated with the disposal of fluid or handling of contaminated canisters, as the liquid waste is automatically emptied into the sanitary sewer after measurements are obtained. We will utilize the same suction tubing currently being used in the operating room, so no additional cost is incurred with our process. While each hospital handles fluid disposal differently, we believe that the cost of our cleaning fluid after each procedure will be less than the current procedural cost that could include the cost of canisters, labor to transport the canisters, solidifying powder, gloves, gowns, mops, goggles, shipping, and transportation, as well as any costs associated with spills that may occur due to manual handling.

A hidden but very real and considerable handling cost is the cost of an infectious fluid exposure. A July 2007 research article published in *Infection Control Hospital Epidemiology* concluded that "Management of occupational exposures to blood and bodily fluids is costly; the best way to avoid these costs is by prevention of exposures." According to the article, hospital management cost associated with occupational blood exposure can, conservatively, be more than $4,500 per exposure. Because of privacy laws, it is difficult to obtain estimates of exposure events at individual facilities; however, in each exposure the worker must be treated as a worse case event. This puts the healthcare worker through a tremendous amount of personal trauma, and the health care facility through considerable expense and exposure to liability and litigation.

Nursing Labor

Nursing personnel spend significant time in the operating room readying canisters for use, calculating blood loss and removing or supervising the removal of the contaminated canisters after each procedure. Various estimates have been made, but an internal study at a large healthcare facility in Minneapolis, Minnesota, revealed that the average nursing team spends twenty minutes pre-operatively and intra-operatively setting up, monitoring fluid levels and changing canisters as needed and twenty minutes post-operatively readying blood loss estimates or disposing of canisters. Estimates for the other new technologies reviewed have noted few cost savings to nursing labor.

The FMS would save nursing time as compared to the manual process of collecting and disposing of surgical waste. Set-up is as easy as attaching the suction tube to the inflow port of the FMS. Post-operative clean-up requires approximately five minutes, the time required to dispose of the suction tubing to the red-bag, calculate the patient's blood loss, attach the bottle of cleaning solution to the inlet port of the unit, initiate the cleaning cycle, and dispose of the emptied cleaning solution. The steps that our product avoids, which are typically involved with the manual disposal process include, canister setup, interpretation of an analog read out for calculating fluid, canister management during the case (i.e. swapping out full canisters), and then temporarily storing, transferring, dumping, and properly disposing of the canisters.

Competitive Products

Disposable canister system technology for fluid management within the operating room has gone virtually unchanged for decades. As concern for the risk of exposure of healthcare workers to bloodborne pathogens, and the costs associated with canister systems has increased, market attention has increasingly turned toward fluid management. The first quarter of 2001 saw the introduction of three new product entries within the infectious material control field. Stryker Instruments introduced the "NeptuneTM" system, offering a combination of bio-aerosol and fluid management in a portable two-piece system; Waterstone Medical (now DeRoyal) introduced the "Aqua BoxTM" stationary system for fluid disposal; and Dornoch Medical Systems, Inc. introduced the "Red AwayTM" stationary system for fluid collection and disposal. All companies, regardless of size, have their own accessory kits.

We differentiate from these competitors since we have the most automatic, hands-free process of any of the systems currently on the market. Each of our competitors, with the exception of MD Technologies, Inc., has some significant manual handling involved in the process. For instance, some competing products require transport of the mobile unit to a docking port and then emptying of the fluid, while others require that the canister be manually transported to a more efficient dumping station. Regardless, most of our competitors require more human interaction with the fluid than BioDrain. Please refer to the chart included in the section headed as Products for a comparison of the key features of the devices currently marketed and the FMS.

Although the mobility associated with most of the competing products adds time and labor to the process and increases the chance of worker exposure to waste fluids, it also allows the hospital to purchase only as many mobile units needed for simultaneous procedures in multiple operating rooms. With the FMS, a unit must be purchased and installed in each room where it is intended to be used.

Marketing and Sales

Distribution

We intend to sell the FMS and cleaning kit through independent distributors and manufacturer's representatives covering the vast majority of major U.S. markets. Our targeted customer base will include nursing administration, operating room managers, CFOs, risk management, and infection control. Other professionals with an interest in the product include physicians, nurses, biomedical engineering, anesthetists, anesthesiologists, human resources, legal, administration and housekeeping.

The major focus of our marketing efforts will be to introduce the FMS as a standalone device capable of effectively removing infectious waste and disposing of it automatically while providing accurate measurement of fluids removed, and also limiting exposure of the surgical team and healthcare support staff.

Governmental and professional organizations have become increasingly aggressive in attempting to minimize the risk of exposure by medical personnel to bloodborne pathogens. We believe that the FMS provides a convenient and cost effective way to collect and dispose of this highly contaminated material.

Our distributors may have installation and service capability, or we will contract those functions with an independent service/maintenance company. We have been in contact with both distributors and service companies regarding these installation requirements. We will establish extensive training and standards for the service and installation of the FMS to ensure consistency and dependability in the field. Users of the system will require a minimal amount of training to operate the FMS. The instructions for use and the installation guide will be included with every system along with a quick start guide and a troubleshooting manual.

We will structure our pricing and relationships with distributors and/or service companies to ensure that these entities receive at least a typical industry level compensation for their activities. We believe our current cost and price estimates are conservative and allow for reasonable profit margins for all entities in the FMS and the cleaning fluid supply chain.

Promotion

The dangers of exposure to infectious fluid waste are well recognized in the medical community. It is our promotional strategy to effectively educate medical staff regarding the risks of contamination using current waste collection procedures and the advantages of the FMS in protecting medical personnel from inadvertent exposure. We intend to leverage this medical awareness and concern with education of regulatory agencies at the local, state and federal levels about the advantages of the FMS.

We intend to supplement our sales efforts with a promotional mix that will include a number of printed materials, video support and a website. We believe our greatest challenge lies in reaching and educating the 1.6 million medical personnel who are exposed daily to fluid waste in the operating room or in other healthcare settings (OSHA, CPL 2-2.44C). These efforts will require utilizing single page selling pieces, video educational pieces for technical education, use of scientific journal articles and a webpage featuring product information, educational materials, and training sites.

We will support our sales organization by attending major scientific meetings where large numbers of potential users are in attendance. The theme of our trade show booths will focus on education, the awareness of the hazards of infectious waste fluids and the Company's innovative solution to the problem. We will focus our efforts initially on the Association of Operating Room Nurses ("AORN") meeting, where the largest concentration of potential buyers and influencers are in attendance. We will obtain an Internet mailbox and will feature information on protection of the healthcare worker as well as links to other relevant sites. We intend to invest in limited journal advertising until targeted audiences have been fully identified. The initial thrust will focus on features of the product and ways of contacting the Company via the webpage or directly through postage paid cards or direct contact. Additionally, we will create a press release distribution to clinician-oriented periodicals for inclusion in their new product development columns. These periodicals will provide the reader with an overview of the FMS and will direct readers to pursue more information by direct contact with us by accessing our webpage.

Pricing

We believe prices for the FMS and its disposable kit reflect a substantial cost savings to hospitals compared to their long-term procedure costs. Our pricing strategy should ensure that the customer realizes actual cost savings when using the FMS versus replacing traditional canisters, considering the actual costs of the canisters and associated costs such as biohazard processing labor and added costs of biohazard waste disposal. Suction tubing that is currently used in the operating room will continue to be used with our system and should not be considered in the return on investment equation. Our cleaning solution's bottle is completely recyclable, and the anticipated selling price of the fluid is built into our cost analysis. In contrast, an operation using traditional disposal methods will often produce multiple canisters destined for biohazard processing. Biohazard disposal costs are estimated by Outpatient Surgery Magazine to be 5 times more per pound to dispose of than regular waste (*Outpatient Surgery Magazine*, April 2007). Once the canister has touched blood, it is considered "red bag" biohazard waste, whereas the cleaning fluid bottle used in our system can be recycled or disposed with the rest of the facility's plastics.

The FMS lists for approximately $18,000 per system (one per operating room – installation extra) and $15 - $20 per unit retail for the proprietary disposable kit to the U.S. hospital market. By comparison, the disposal system of Stryker Instruments, one of our competitors, retails for approximately $25,000 plus an $8,000 docking station and requires a disposable component with an approximate cost of $25 per procedure and a proprietary cleaning fluid (cost unknown per procedure). Per procedure cost of the traditional disposal process includes approximate costs of $2 per liter canister, plus solidifier at $2 per liter canister, plus the biohazard premium disposal cost approximated at $1.80 per liter canister. In addition, the labor, gloves, gowns, goggles, and other related material handling costs are also disposal expenses.

Installation will be done by distributors, independent contractors, or in-house engineering at an estimated price of $1,000, depending on the operating room. Installation of the FMS requires access only to the hospital's sanitary sewer, vacuum suction, and electricity. To help facilities maintain their utilization rates, we will recommend installation during off peak hours. In smaller facilities, an outside contractor may be called in, while larger institutions have their own installation and maintenance workforce. Installation time should not seriously impact the use of the operating room. Each FMS will have an industry standard warranty period that can be extended through documented use of our sterilization kit.

Engineering and Manufacturing

We have manufacturing arrangements with Miller Technical Services ("MTS"), a contract manufacturer with ISO 13485 certification, to manufacture the FMS. Although we are in the early stages of manufacturing the FMS with MTS, their capabilities appear to be adequate to serve our future needs.

The disposable kit, including a bottle of proprietary cleaning solution and an in-line filter will be sourced through Oculus Innovative Sciences (cleaning solution) and through AETAS Corporation (filter), both of whom have long term vender agreements with the Company.

Government Regulation

To date, no regulatory agency has established exclusive jurisdiction over the area of biohazardous and infectious waste in healthcare facilities. Several prominent organizations maintain oversight function concerning various aspects of pertinent technologies and methods of protection. These agencies include:

- OSHA (Occupational Safety and Health Administration)
- EPA (Environmental Protection Agency)

- DOT (Department of Transportation)
- JCAHO (Joint Commission of Accreditation of Hospitals)
- NFPA (National Fire Protection Association)
- AIA (American Institute of Architects)
- AORN (Association of Operating Room Nurses)
- State, county, hospital, and other institutions

Application for Electrical Safety Testing and Certification

We sought testing and certification to the IEC 60606-1 and IEC 60606-1-2, two internationally recognized standards. In the U.S., there are 3 Nationally Recognized Testing Laboratories ("NRTLs"), Underwriters Laboratories ("UL"), TUV SUD America, Inc., and Intertek-Semko (ETL), that can perform such tests for electrical safety of the FMS device. We issued request for quotes to two of the three NRTLs, in addition to issuing initial inquiries to certified third party testing entities conducting testing on behalf of the NRTLs. Based on responses to our request for quotes, noting pricing and timing of conducting the testing, we have contracted with TUV SUD America, Inc. located in New Brighton, MN for this electrical safety testing. On March 11, 2009, we received completed test documentation from TUV SUD America, Inc. confirming the FMS device successfully completed and passed all testing showing compliance to IEC 60606-1 and IEC 60606-1-2.

A previous generation BioDrain FMS device (110/240VAC) successfully passed electrical safety testing conducted by UL in November 2005 (reference UL File E256928).

We filed the 510(k) submission for FDA clearance of the FMS device on March 14, 2009 and received written confirmation on April 1, 2009 that our 510(k) has been cleared by the FDA. The FDA requires, pursuant to a final regulation for Establishment Registration and Device Listing for Manufacturers of Devices, that a 510(k) premarket notification be submitted at least ninety days before marketing a device that: (1) is being introduced into distribution for the first time by that person or entity, or (2) is in distribution but is being significantly modified in design or use. A 510(k) submission must contain, among other things: (i) proposed labeling sufficient to describe the device's intended use; (ii) a description of how the device is similar to or different from other devices of comparable type, or information about what consequences a proposed device modification may have on the device's safety and effectiveness; and (iii) any other information necessary to determine whether the device is substantially equivalent (as defined below). The FMS is a Class II device, which is less stringently reviewed as that of a Class III device. We have teamed with regulatory consultants with significant experience in the FDA clearance process.

FDA Process for Clearing a Device under Section 510(k)

The FDA Center for Devices and Radiological Health requires 510(k) submitters to provide information that compares its new device to a marketed device of a similar type, in order to determine whether the device is substantially equivalent ("SE"). This means that a manufacturer can submit a 510(k) comparing a new device to a device that has been found to be SE and the FDA can use this as evidence to determine whether the new device is SE to an already legally marketed device (or a "predicate device"). The ultimate burden of demonstrating the substantial equivalence of a new device to a predicate device remains with the 510(k) submitter, and in those occasions when the Center for Devices and Radiological Health is unfamiliar with certain aspects of the predicate device, the submitter will be required to provide information that substantiates a claim of substantial equivalence.

As a matter of practice, the Center for Devices and Radiological Health generally considers a device to be SE to a predicate device if, in comparison to the predicate device, (i) the new device has the same intended use, (ii) the new device has the same technological characteristics (i.e., same materials, design, energy source), (iii) the new device has new technological characteristics that could not affect safety or effectiveness or (iv) the new device has new technological characteristics that could affect safety or effectiveness but there are accepted scientific methods for evaluating whether safety or effectiveness has been adversely affected and there is data to demonstrate that the new technological features have not diminished safety or effectiveness. Pre-market notification submissions are designed to facilitate these determinations.

Following FDA clearance to market our product, which we received on April 1, 2009, we will be subject to the normal ongoing audits and reviews by the FDA and other governing agencies. These audits and reviews are standard and typical in the medical device industry, and we do not anticipate being affected by any extraordinary guidelines or regulations.

Foreign Jurisdictions

Each country in Europe and the Pacific Rim has unique laws, regulations, and directives regarding the manufacture and or marketing of medical devices within their borders that are comparable to the laws and regulations described above. While we have not fully researched each country and the respective laws, regulations, and directives, we will do so in advance, and we recognize product design changes will most likely be necessary based on practices and procedures in the operative environment in the Pacific Rim, as well as product design changes necessitated by laws, regulations, and directives.

Employees

We have 3 employees, all of whom are full-time. We also have 2 external consultants who dedicate a substantial amount of time to the Company.

DESCRIPTION OF PROPERTY

Our corporate offices are located at 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120. We lease about 3,600 square feet with possible expansion to 4,700 square feet of office space at this location. Our monthly base rent is $3,000 for months 1-12, $2,395 for months 13-24, $2,467 for months 25-36, $2,541 for months 37-48, and $2,617 for months 49-60. In addition, we pay our share of common area maintenance expenses, real estate tax expenses/assessments, and utilities, which are determined by the square footage of the premises we lease in months 13-60. The common area maintenance expense was not payable in months 1-12. The lease term began on November 1, 2008 and ends on October 31, 2013. We expect that this space will be adequate for our office needs for the term of the lease.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this prospectus, including our financial statements and related notes.

Risks Related to Our Business

Our limited operating history makes evaluation of our business difficult.

We were formed on April 23, 2002 and to date have generated only minimal revenue. Our ability to implement a successful business plan remains unproven and no assurance can be given that we will ever generate sufficient revenues to sustain our business. We have a limited operating history which makes it difficult to evaluate our performance. You must consider our prospects in light of these risks and the expenses, technical obstacles, difficulties, market penetration rate and delays frequently encountered in connection with the development of new businesses. These factors include uncertainty whether we will be able to:

- Raise capital;
- Develop and implement our business plan in a timely and effective manner;
- Be successful in uncertain markets;
- Respond effectively to competitive pressures;
- Successfully address intellectual property issues of others;
- Protect and expand our intellectual property rights; and
- Continue to develop and upgrade our products.

Because we are a development stage company, not profitable, and expect to incur additional losses, we will require additional financing to sustain our operation. Our independent public accounting firm has indicated in their audit opinion, contained in our financial statements, that they have serious doubts about our ability to remain a going concern.

We incurred a net loss of $1,352,709 and $2,892,230, respectively, for the fiscal years ended December 31, 2010 and 2009, respectively. We have never earned a profit and we anticipate that we will continue to incur losses for at least the next 12 months. We continue to operate on a negative cash flow basis. We have generated only minimal revenues and are still developing our planned principal operations.

We believe that we will need to raise at least an aggregate of $2 million from future offerings in order to have sufficient financial resources to fund our operations for the next 12 months because we are running at a cash flow deficit. If we are unable to obtain additional funds at reasonable rates or at all we will be required to substantially curtail our operations and could cease to operate in our current form. Our independent registered public accounting firm has indicated in their audit opinion, contained in our financial statements, that they have serious doubts about our ability to continue as a going concern.

Although we have been able to fund our current working capital requirements, principally through debt and equity financing, there is no assurance that we will be able to do so in the future.

We are an early stage company with a limited operating history and minimal revenues.

Since our formation in 2002, we have engaged in the formulation of a business strategy and the design and development of technologically advanced products. We have generated only minimal revenues to date. Our ability to implement a successful business plan remains unproven and no assurance can be given that we will ever generate sufficient revenues to sustain our business.

Our business is dependent upon proprietary intellectual property rights, which if we were unable to protect, could have a material adverse effect on our business.

We currently own and may in the future own or license additional patent rights or trade secrets in the U.S., Europe, Asia, Canada, and elsewhere in the world that cover certain of our products. We rely on patent laws and other intellectual property laws, nondisclosure and other contractual provisions and technical measures to protect our products and intangible assets. These intellectual property rights are important to our ongoing operations and no assurance can be given that any measure we implement will be sufficient to protect our intellectual property rights. We may lose the protection afforded by these rights through patent expirations, legal challenges or governmental action. If we cannot protect our rights, we may lose our competitive advantage if these patents were found to be invalid in the jurisdictions in which we sell or plan to sell our products. The loss of our intellectual property rights could have a material adverse effect on our business.

If we become subject to intellectual property actions, this could hinder our ability to deliver our products and services and our business could be negatively impacted.

We may be subject to legal or regulatory actions alleging intellectual property infringement or similar claims against us. Companies may apply for or be awarded patents or have other intellectual property rights covering aspects of our technologies or businesses. Moreover, if it is determined that our products infringe on the intellectual property rights of third parties, we may be prevented from marketing our products. While we are currently not subject to any material intellectual property litigation, any future litigation alleging intellectual property infringement could be costly, particularly in light of our limited resources. Similarly, if we determine that third parties are infringing on our patents or other intellectual property rights, our limited resources may prevent us from litigating or otherwise taking actions to enforce our rights. Any such litigation or inability to enforce our rights could require us to change our business practices, hinder or prevent our ability to deliver our products and services, and result in a negative impact to our business. Expansion of our business via product line enhancements or new product lines to drive increased growth in current or new markets may be inhibited by the intellectual property rights of our competitors and/or suppliers. Our inability to successfully mitigate those factors may significantly reduce our market opportunity and subsequent growth.

Our business would be materially and adversely affected if we were obligated to pay royalties under a competing patent purchase agreement.

Our revenues would be adversely affected if our intellectual property were found to infringe the intellectual property rights of others. Two individuals, Jay D. Nord and Jeffrey K. Drogue, filed a provisional patent application disclosing a particular embodiment for a medical waste fluid collection system (the "Nord/Drogue Embodiment"). We engaged the services of Marshall C. Ryan to further develop the medical waste fluid collection system for commercialization. Mr. Ryan conceived of an alternative embodiment for the medical waste fluid collection system (the "Ryan Embodiment"). An international (PCT) patent application was subsequently filed claiming priority to the earlier filed provisional application of Nord and Drogue and disclosing and claiming both the Nord/Drogue Embodiment and the Ryan Embodiment. The national stage applications were filed in the U.S., Europe and Canada based on the PCT application. During the national stage prosecutions, the European and U.S. patent offices each rejected the patent claims covering the Nord/Drogue Embodiment as being unpatentable over the prior art. The Canadian patent office has not yet examined the Canadian national stage application. The claims were amended in both the U.S. and European applications to claim only the subject matter of the Ryan Embodiment and Mr. Ryan was added as a named inventor. As required under U.S. law, we removed Nord and Drogue as named inventors from the U.S. application because they were no longer inventors to the subject matter of the remaining patent claims. A U.S. patent was granted to us in December 2008 (U.S. Patent No. 7,469,727). A European patent was granted to us in April 2007 (Patent No. EP1539580), and a Canadian patent was granted in April 2011 (number 2,495,747).

We entered into a patent purchase agreement in September 2002 with Nord and Drogue prior to engaging Mr. Ryan. Under the patent purchase agreement, certain royalties were to be paid to Nord and Drogue upon issuance of a U.S. patent. However, upon learning that the Nord/Drogue Embodiment was un-patentable, we notified Mr. Nord that the patent purchase agreement we had entered into with Nord and Drogue was no longer valid. Nord and Drogue could pursue legal action against us purportedly for breach of contract and may sue for damages and ownership interest in the patents. Although we believe we would prevail in such lawsuit, there is no assurance that we would. We believe that Nord and Drogue have no valid claims of inventorship or ownership of the patents. Even if Mr. Nord or Mr. Drogue were to assert such a claim, we believe that, independent of our dealings with them, we obtained rights to the patents from Mr. Ryan, who even if found not to be the sole inventor of the subject matter of the claims of the patents, is at least a joint inventor. As a joint inventor, Mr. Ryan would have co-ownership of the Patents and would have the power to transfer to us his undivided co-ownership interest in the Patents.

We face significant competition, including competition from companies with considerably greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.

Our industry is highly competitive with numerous competitors ranging from well-established manufacturers to innovative start-ups. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to compete more effectively on the basis of price and production and more quickly develop new products and technologies.

We estimate that the total market for surgical suction canisters is approximately $100 million and has a compound annual growth rate of 5%. We estimate the total cost of using surgical canisters is a multiple of $100 million because this amount does not include the labor to handle the canisters, disposal costs and solidifying compounds commonly used to minimize exposure to health care workers. Cardinal Health, Inc., a $90 billion plus medical manufacturer and distributor, is a leading competitor. Another one of our competitors is Stryker Instruments, a wholly owned subsidiary of Stryker Corporation, which is a publicly traded company with revenues of approximately $8 billion, and has a leading position in this market. Cardinal Health, Inc. has recently begun advertising a powered device similar to that which Stryker currently markets. Both of these competitors are better capitalized than we are.

Although the BioDrain Streamway™ FMS is directly connected to the sanitary sewer, helping to reduce potential exposure to infectious fluids, it is possible that installation of the system will cause inconvenience and lost productivity as the operating rooms in which they are installed will need to be temporarily shut down. In addition, remodel work may be necessary in preparation for, or as a result of, an installation. In some cases, the costs to rework plumbing lines to accommodate for our system may outweigh the expected savings and/or lengthen the expected return on investment time.

Companies with significantly greater resources than ours may be able to reverse engineer our products and/or circumvent our intellectual property position. Such action, if successful, would greatly reduce our competitive advantage in the marketplace.

We believe that our ability to compete successfully depends on a number of factors, including our innovative and advanced research and development capabilities, strength of our intellectual property rights, sales and distribution channels and advanced manufacturing capabilities. We plan to employ these and other elements as we develop our products and technologies, but there are many other factors beyond our control. We may not be able to compete successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which could adversely impact the trading price of the shares of our common stock.

Our products require FDA clearance and our business will be subject to intense governmental regulation and scrutiny, both in the U.S. and abroad.

In March 2009, we filed a 510(k) submission with the FDA with respect to a product classification as a Class II non-exempt device. We cannot generate revenues from our product to be used in the surgical operating room without FDA clearance. We received written confirmation of final FDA clearance on April 1, 2009.

The potential production and marketing of some of our products, our ongoing research and development, any pre-clinical testing and clinical trial activities are subject to extensive regulation and review by FDA and other governmental authorities both in the United States and abroad. In addition to testing and approval procedures, extensive regulations also govern marketing, manufacturing, distribution, labeling, and record keeping. If we do not comply with applicable regulatory requirements, violations could result in warning letters, non-approvals, suspensions of regulatory approvals, civil penalties and criminal fines, product seizures and recalls, operating restrictions, injunctions, and criminal prosecution.

Periodically, legislative or regulatory proposals are introduced that could alter the review and approval process relating to medical products. It is possible that the FDA will issue additional regulations further restricting the sale of our present or proposed products. Any change in legislation or regulations that govern the review and approval process relating to our current and future products could make it more difficult and costly to obtain approval for new products, or to produce, market, and distribute existing products.

Our product may never be commercially viable or producible to satisfy demand.

The BioDrain FMS is currently being launched into the fluid management market. We engaged Miller Technical Services, a medical product contract manufacturing entity, and we finalized the product design. We anticipate that the product will be attractive to the target market, but other unknown or unforeseen market requirements may arise. There is no assurance that such a product can be produced in sufficient volume to satisfy projected sales volumes.

If our product is not accepted by our potential customers, it is unlikely that we will ever become profitable.

The medical industry has historically used a variety of technologies for fluid waste management. Compared to these conventional technologies, our technology is relatively new, and the number of companies using our technology is limited. The commercial success of our product will depend upon the widespread adoption of our technology as a preferred method by hospitals and surgical centers. In order to be successful, our product must meet the technical and cost requirements for these facilities. Market acceptance will depend on many factors, including:

- the willingness and ability of customers to adopt new technologies;
- our ability to convince prospective strategic partners and customers that our technology is an attractive alternative to conventional methods used by the medical industry;
- our ability to select and execute agreements with effective distributors and manufacturers representatives to market and sell our product; and
- our ability to assure customer use of the BioDrain proprietary cleaning fluid and in-line filter.

Because of these and other factors, our product may not gain market acceptance or become the industry standard for the health care industry. The failure of such companies to purchase our products would have a material adverse effect on our business, results of operations and financial condition.

We are dependent for our success on a few key executive officers. Our inability to retain those officers would impede our business plan and growth strategies, which would have a negative impact on our business and the value of an investment.

Our success depends on the skills, experience and performance of key members of our management team. We are heavily dependent on the continued services of Lawrence Gadbaw, the Chairman of our Board of Directors, and Kevin Davidson, our President, Chief Executive Officer, and Chief Financial Officer. We have entered into employment or consulting agreements with all members of our senior management team and we plan to expand the relatively small number of executives in our company. Were we to lose one or more of these key individuals, we would be forced to expend significant time and money in the pursuit of a replacement, which could result in both a delay in the implementation of our business plan and the diversion of our limited working capital. We can give you no assurance that we can find satisfactory replacements for these key individuals at all, or on terms that are not unduly expensive or burdensome to our company. Although we intend to issue stock options or other equity-based compensation to attract and retain employees, such incentives may not be sufficient to attract and retain key personnel.

Our success is dependent on our ability to attract and retain technical personnel, sales and marketing personnel, and other skilled management.

Our success depends to a significant degree on our ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical, sales and marketing personnel and skilled management could adversely affect our business. If we fail to attract, train and retain sufficient numbers of these highly qualified people, our prospects, business, financial condition and results of operations will be materially and adversely affected.

The relative lack of public company experience of our management team may put us at a competitive disadvantage.

Our management team has limited public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by the Sarbanes-Oxley Act of 2002. The individuals who now constitute our senior management have had limited responsibility for managing a publicly traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may not be able to implement and effect programs and policies in an effective and timely manner that adequately respond to such increased legal, regulatory compliance and reporting requirements. Our failure to do so could lead to the imposition of fines and penalties and result in the deterioration of our business.

Costs incurred because we are a public company may affect our profitability.

As a public company, we incur significant legal, accounting, and other expenses, and we are subject to the SEC's rules and regulations relating to public disclosure that generally involve a substantial expenditure of financial resources. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC, requires changes in corporate governance practices of public companies. We expect that full compliance with such rules and regulations will significantly increase our legal and financial compliance costs and make some activities more time-consuming and costly, which may negatively impact our financial results. To the extent our earnings suffer as a result of the financial impact of our SEC reporting or compliance costs, our ability to develop an active trading market for our securities could be harmed.

Risks Related to Our Securities

There is currently a limited public trading market for our common stock and we cannot assure you that an active public trading market for our common stock will develop or be sustained. Even if a market further develops, you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

There is currently a limited public trading market for our registered common stock. An application for quotation on the OTC Bulletin Board was submitted by a market maker who agreed to sponsor the security and who demonstrated compliance with Rule 15c2-11 of the Securities Exchange Act of 1934 (the "Exchange Act"). The application for quotation of our registered common stock on the OTC Bulletin Board was accepted on November 13, 2009. We also caused a different market maker to submit an application in April 2010, on our behalf to the Depository Trust Corporation (DTC) to become eligible for electronic trading ("DTC eligible"). We are waiting for DTC to approve our application.

Even though our registered common stock is approved for quotation on the OTC Bulletin Board, the number of institutions or persons interested in purchasing our registered common stock at or near ask prices at any given time may be relatively small or nonexistent. This situation may be attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk averse and may be reluctant to follow a relatively unproven company such as ours or purchase or recommend the purchase of our shares until such time as we become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that an active public trading market for our registered common stock will develop or be sustained.

Limitations on director and officer liability and indemnification of our officers and directors by us may discourage shareholders from bringing suit against a director.

Our articles of incorporation and bylaws provide, with certain exceptions as permitted by governing state law, that a director or officer shall not be personally liable to us or our shareholders for breach of fiduciary duty as a director, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on our behalf against a director. In addition, our articles of incorporation and bylaws may provide for mandatory indemnification of directors and officers to the fullest extent permitted by governing state law.

We do not expect to pay dividends for the foreseeable future, and we may never pay dividends.

We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to, our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize certain returns on their investment.

Even though our application for quotation on the OTC Bulletin Board has been accepted our stock may be thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

Even though our application for quotation on the OTC Bulletin Board has been accepted, our registered common stock may be thinly traded on the OTC Bulletin Board, meaning there has been a low volume of buyers and sellers of the shares. Through this registration statement, we went public without the typical initial public offering procedures which usually include a large selling group of broker-dealers who may provide market support after going public. Thus, we will be required to undertake efforts to develop market recognition and support for our shares of common stock in the public market. The price and trading volume of our registered common stock cannot be assured. The number of institutions or persons interested in purchasing our registered common stock at or near ask prices at any given time may be relatively small or non-existent. This situation may be attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days, weeks or months when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price.

We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained. In addition to trading on the OTC Bulletin Board, our ultimate intention is to apply for trading on either the Nasdaq Capital Market or the NYSE Alternext U.S. LLC (formerly American Stock Exchange) at such time that we meet the requirements for listing on those exchanges. We currently do not meet the objective listing criteria for listing on those exchanges and there can be no assurance as to when we will qualify for either of these exchanges or that we will ever qualify for these exchanges.

In order for our registered common stock to be eligible to trade on the Nasdaq Capital Market, we would need, among other things, a bid price of $4.00, $5 million in stockholders' equity, and $15 million market value of publicly held shares. In order for our registered common stock to be eligible to trade on the NYSE Alternext U.S. LLC, which is a market for small and mid-sized companies, we would need, among other things, at least $3 million market value of public float, a minimum price of $3 and $4 million in shareholders' equity.

Currently, our market capitalization, revenues and stockholders' equity are insufficient to qualify for these exchanges. We also do not have a sufficient number of shareholders. We would also need to meet the corporate governance and independent director and audit committee standards of Nasdaq and/or the NYSE Alternext U.S. LLC. We do not satisfy such standards at this time.

The trading volume of our common stock may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTC Bulletin Board stocks and certain major brokerage firms restrict their brokers from recommending OTC Bulletin Board stocks because they are considered speculative, volatile and thinly traded.

The application of the "penny stock" rules to our common stock could limit the trading and liquidity of the common stock, adversely affect the market price of our common stock and increase your transaction costs to sell those shares.

As long as the trading price of our common stock is below $5 per share, the open-market trading of our common stock will be subject to the "penny stock" rules, unless we otherwise qualify for an exemption from the "penny stock" definition. The "penny stock" rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with net assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities.

The OTC Bulletin Board is a quotation system, not an issuer listing service, market or exchange. Therefore, buying and selling stock on the OTC Bulletin Board is not as efficient as buying and selling stock through an exchange.

The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Because trades and quotations on the OTC Bulletin Board involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmation may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Bulletin Board, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual's orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Bulletin Board at the time of the order entry.

Orders for OTC Bulletin Board securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Bulletin Board. Due to the manual order processing involved in handling OTC Bulletin Board trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not able to sell shares of common stock at the optimum trading prices.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Bulletin Board if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate *"paper"* loss due to the price spread. Moreover, dealers trading on the OTC Bulletin Board may not have a bid price for securities bought and sold through the OTC Bulletin Board. Due to the foregoing, demand for securities that are traded through the OTC Bulletin Board may be decreased or eliminated.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our shareholders may be eligible to sell some or all of their shares of common stock pursuant to Rule 144, promulgated under the Securities Act of 1933, as amended, (the "Securities Act") subject to certain limitations. In general, pursuant to Rule 144 as in effect as of the date of this prospectus, a shareholder (or shareholders whose shares are aggregated) who has satisfied the applicable holding period and is not deemed to have been one of our affiliates at the time of sale, or at any time during the three months preceding a sale, may sell their shares of common stock. Any substantial sale, or cumulative sales, of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

We expect volatility in the price of our common stock, which may subject us to securities litigation.

If established, the market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the securities by the selling stockholder. All proceeds from the sale of the securities offered by the selling stockholder under this prospectus will be for the account of the selling stockholder, as described below in the sections entitled "Selling Security Holders" and "Plan of Distribution." With the exception of any brokerage fees and commissions that are the respective obligations of the selling stockholder, we are responsible for the fees, costs, and expenses of this offering, which includes our legal and accounting fees, printing costs, and filing and other miscellaneous fees and expenses.

PLAN OF DISTRIBUTION

We are registering shares of our common stock pursuant to a Note Purchase Agreement we entered into on December 20, 2011 with the sole selling stockholder, Dr. Samuel Herschkowitz, to permit the resale of these securities by Dr. Herschkowitz from time to time after the date of this prospectus. We will not receive any of the proceeds from these sales by the selling stockholder. We will bear all fees and expenses incident to our obligation to register these securities.

The selling stockholder and any of his pledgees, donees, transferees, assignees, and successors-in-interest may, from time to time, sell any or all of their securities on any stock exchange, market, or trading facility on which the securities are traded or quoted or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholder may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- to cover short sales made after the date that this Registration Statement is declared effective by the SEC;
- broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholder may also sell his shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholder may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholder (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholder does not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholder may from time to time pledge or grant a security interest in some or all of the shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholder to include the pledgee, transferee, or other successors in interest as selling stockholder under this prospectus.

When we are notified in writing by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of common stock through a block trade, special offering, exchange distribution, or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, when we are notified in writing by a selling stockholder that a donee or pledgee intends to sell more than 500 shares of common stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The selling stockholder also may transfer the shares of common stock in other circumstances, in which case the transferees, pledges, or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholder and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions, and similar selling expenses, if any, that can be attributed to the sale of securities will be paid by the selling stockholder and/or the purchasers. Each selling stockholder has represented and warranted to us that it acquired the securities subject to this prospectus and the registration statement of which it forms a part, in the ordinary course of such selling stockholder's business and, at the time of its purchase of such securities such selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities.

We have advised the selling stockholder that it may not use shares covered under this prospectus and the registration statement of which it forms a part, to cover short sales of common stock made prior to the date on which the registration statement shall have been declared effective by the SEC. If the selling stockholder uses this prospectus for any sale of the common stock, it will be subject to the prospectus delivery requirements of the Securities Act. The selling stockholder will be responsible to comply with the applicable provisions of the Securities Act and Securities Exchange Act of 1934, as amended ("Exchange Act"), and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to the selling stockholder in connection with resales of his shares under this registration statement.

We are required to pay all fees and expenses incident to the registration of the shares, but we will not receive any proceeds from the sale of the common stock.

SELLING SECURITY HOLDERS

The table below lists the selling stockholder and other information regarding the beneficial ownership of the shares of common stock to be offered by the selling stockholder. The selling stockholder may decide to sell all, some, or none of the securities listed below. We cannot provide you with any estimate of the number of securities that the selling stockholder will hold in the future. For purposes of this table, beneficial ownership is determined in accordance with the rules of the SEC, and includes voting power and investment power with respect to such securities.

The inclusion of any securities in the following table does not constitute an admission of beneficial ownership by the person named below. Except as indicated in the footnotes to the table, the selling stockholder has not had any material relationship with us or our affiliates during the last three years. Except as indicated below, the selling stockholder is not a registered broker-dealer or an affiliate of a broker-dealer.

Name and Address	Securities Beneficially Owned Prior to Offering	Securities Offered	Securities Beneficially Owned After Offering	% Beneficial Ownership After Offering (1)
Samuel Herschkowitz 122 Willow Street Brooklyn, NY 11201	9,046,667(2)	9,196,667(2)	0	0%
TOTAL	9,046,667(2)	9,196,667(2)	0	

(1) Based on 30,527,328 shares of common stock outstanding as of January 24, 2012.

(2) We issued 9,046,667 under the Note Purchase Agreement with the selling stockholder. 150,000 shares are issuable under the agreement as an "Additional Bonus." For additional information regarding the registration of these securities, please see "Registration Rights" under the section titled "Description of Securities" in this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing elsewhere in this prospectus. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Special Note Regarding Forward-Looking Statements, Business, and Risk Factors sections in this prospectus.

Overview

We were incorporated in Minnesota in April 2002. We are an early stage development company developing an environmentally conscientious system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care. We achieved our first sale in June 2009. Since our inception in 2002, we have invested significant resources into product development and in preparing for approval from the FDA. We believe that our success depends upon converting the traditional process of collecting and disposing of infectious fluids from the operating rooms of medical facilities to our wall-mounted Fluid Management System ("FMS") and use of our proprietary cleaning fluid.

Since inception, we have been unprofitable. We incurred a net loss of approximately $1.5 million during the nine months ended September 30, 2011, approximately $1.4 during the 2010 fiscal year, and approximately $2.9 million during the 2009 fiscal year. As of September 30, 2011 and December 31, 2010, we had an accumulated deficit of approximately $8.9 million and $7.4 million, respectively. As a company in the early stage of development, our limited history of operations makes prediction of future operating results difficult. We believe that period to period comparisons of our operating results should not be relied on as predictive of our future results.

We have focused on finalizing our production processes and obtaining final FDA clearance to sell our product to the medical facilities market. We obtained FDA final clearance on April 1, 2009. We intend to sell the FMS through experienced, independent medical distributors and manufacturer's representatives, who we believe will enhance acceptability of the FMS in the market. We have signed agreements with independent sales representatives and product installation organizations and are conducting training sessions, but we continue to recruit more independent sales representatives and installation companies to meet our potential future needs. We achieved our first billable shipment in June 2009 and anticipate several orders during the first half of 2010. Since our FDA clearance to sell our FMS product was only received on April 1, 2009, it is too early to know with a high degree of confidence how quickly, and in what amounts, new orders will develop.

Since we do not expect to generate sufficient revenues in 2011 to fund our capital requirements, our capital needs for the next 12 months are expected to be approximately $3 million even though we plan to use outside third party contract manufacturers to produce the FMS and independent sales representatives to sell the FMS. Our future cash requirements and the adequacy of available funds will depend on our ability to sell our FMS and related products now that FDA final clearance has been obtained. We expect that we will require additional funding to finance operating expenses and to enter the international marketplace.

As of December 31, 2010, we have funded our operations through a bank loan of $41,400, an equity investment of $68,000 from the Wisconsin Rural Enterprise Fund ("WREF") and $30,000 in early equity investment from several individuals. WREF had also previously held debt in the form of three loans of $18,000, $12,500 and $25,000. In December 2006, WREF converted two of the loans totaling $37,500 into 43,000 shares of our Common Stock. In August 2006, we secured a $10,000 convertible loan from one of our vendors. In February 2007, we obtained $4,000 in officer and director loans and in March 2007, we arranged a $100,000 convertible note from two private investors. In July 2007, we obtained a convertible bridge loan of $170,000. In June 2008, we paid off the remaining $18,000 loan from WREF and raised approximately $1.6 million through our October 2008 financing. The $170,000 convertible bridge loan and the $4,000 in officer and director loans were converted into shares of our common stock in October 2009. During 2009, we raised an additional $725,000 in a private placement of stock units and/or convertible debt, with each stock or debt unit consisting of, or converting into, respectively, one share of our common stock, and a warrant to purchase one share of our common stock at $.65 per share. In 2010, we raised approximately $605,000 from the issuance of convertible debt and approximately $220,000 from the sale of units of stock and warrants. The conversion price on the debt and the unit price of the stock and warrants ranged from $.10 to $.65 per share.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our audited Financial Statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of our financial statements, the reported amounts of revenues and expenses during the reporting periods presented, as well as our disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, fair value of stock-based compensation, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, and contingencies and litigation.

We base our estimates and assumptions on our historical experience and on various other information available to us at the time that these estimates and assumptions are made. We believe that these estimates and assumptions are reasonable under the circumstances and form the basis for our making judgments about the carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results and outcomes could differ from our estimates.

Our significant accounting policies are described in Note 1 to our financial statements included elsewhere in this prospectus. We believe that the following discussion addresses our critical accounting policies and reflects those areas that require more significant judgments, and use of estimates and assumptions in the preparation of our financial statements.

Revenue Recognition. We recognize revenue in accordance with the SEC's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101) and ASC 605- *Revenue Recognition*.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectibility is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. Our standard terms specify that shipment is FOB BioDrain, and we will, therefore recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of our FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, we recognize gross product revenue, which is the price we charge generally to our customers for a particular product. Under our standard terms and conditions, there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer's right of return is limited only to our standard one-year warranty, whereby we replace or repair, at our option. We believe it would be rare that the FMS unit or significant quantities of cleaning solution kits may be returned. Additionally, since we buy both the FMS units and cleaning solution kits from "turnkey" suppliers we would have the right to replacements from the suppliers if this situation should occur.

Stock-Based Compensation. Effective January 1, 2006, we adopted ASC 718- *Compensation-Stock Compensation* ("ASC 718"). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under SFAS 123 for pro forma disclosures, using a straight-line method. We elected the modified-prospective method in adopting ASC 718 under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. We use the Black-Scholes-Merton option-pricing model which requires the input of significant assumptions including an estimate of the average period of time employees and directors will retain vested stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate.

Because we do not have significant historical trading data on our common stock we relied upon trading data from a composite of 10 medical companies traded on major exchanges and 15 medical companies quoted by the OTC Bulletin Board to help us arrive at expectations as to volatility of our own stock when public trading commences. Likewise, we have no history of option and warrant exercises because there was no liquidity in our stock as a private company and we were required to make a significant judgment as to expected option and warrant exercise patterns in the future regarding employee and director options and warrants. In the case of options and warrants issued to consultants and investors we used the legal term of the option/warrant as the estimated term unless there was a compelling reason to use a shorter term. The measurement date for employee and non-employee options and warrants is the grant date of the option or warrant. The vesting period for options that contain service conditions is based upon management's best estimate as to when the applicable service condition will be achieved. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future. See Note 3.

When an option or warrant is granted in place of cash compensation for services we deem the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason we also use the Black-Scholes-Merton option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period that investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of our common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognizes that. Since we have no trading history in our common stock and no first-hand experience with how our investors and consultants have acted in similar circumstances, the assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based consulting and interest expense could be materially different in the future.

Since our common stock has no significant public trading history we were required to take an alternative approach to estimating future volatility and the future results could vary significantly from our estimates. We compiled historical volatilities over a period of 2-7 years of 15 small-cap medical companies traded on major exchanges and ten medical companies in the middle of the market cap size range on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of standard options to employees we determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees we estimated the life to be the legal term unless there was a compelling reason to make it shorter.

Valuation of Intangible Assets. We review identifiable intangible assets for impairment in accordance with ASC 360- *Property Plant and Equipment* ("ASC 360"), whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

Recent Accounting Developments

See Note 1 to our financial statements included elsewhere in this prospectus.

Results of Operations

Comparison of Nine Months Ended September 30, 2011 and September 30, 2010

Revenue. We recorded $20,264 in revenue in the three months and $22,638 in the nine months ended September 30, 2011, zero in the three months and $288 in the nine months ended September 30, 2010. The revenue in the third quarter of 2011 included the sale of one Streamway® system and disposable supplies to operate the Streamway. Revenue in 2010 was solely for disposable supplies for an evaluation unit. The Company has recently begun installing Streamway units in hospitals for evaluation purposes and, in one case, for production purposes, and expects the revenue for Streamway units to increase significantly at such time as the hospitals approve the use of the unit for their application and place orders for billable units.

Cost of sales. Cost of sales was $11,161 in the three months and $12,981 in the nine months ended September 30, 2011, zero in the three months and $140 in the nine months ended September 30, 2010. The gross profit margin was only 45% and 43% for the system and the procedure kits in the three months and nine months ended September 30, 2011, respectively, primarily due to a discount offer to encourage the customer to fully utilize the equipment, but should increase over time as volume purchasing discounts on both the equipment and the cleaning solution begin to take effect.

General and Administrative expense. General and administrative (G&A) expense primarily consists of management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

General and Administrative (G&A) expenses increased to $429,000 from $381,000 in the three months ended September 30, 2011 compared to September 30, 2010, and decreased to $1,015,000 in the nine months ended September 30, 2011 compared to $1,532,000 in the nine months ended September 30, 2010.

The increase in the three-month period was primarily due to an increase of $41,000 in investor relations expense and an increase of $84,000 in stock based compensation offset, in part, by a decrease of $54,000 in stock based consulting expense and $20,000 in other consulting expense. The increase in stock based compensation expense was due to an award of stock options to the management team during the quarter and the increase in investor relations expense was due to a significant effort to promote the current revenue ramp-up effort that the Company is undertaking.

The $517,000 decrease in G&A expenses for the nine-month period of 2011, compared to 2010, is primarily due to a $439,000 reduction in consulting expense and a $65,000 reduction in salary expense. Although we have continued to compensate consulting with stock based instruments, the total value of the stock, and the number of shares has decreased. Salary expense declined in 2011 by comparison to 2010 due to a $70,000 charge to expense in 2010 to estimate the costs to settle a termination matter with a former officer. Total G&A expenses are expected to increase due to increased insurance premiums, investor relations expenses and audit and legal fees, resulting from becoming a public company, but otherwise remain relatively constant over the next several quarters.

Operations expense. Operations expense primarily consists of expenses related to product development and prototyping and testing in the company's current stage.

Operations expense increased to $135,000 in the three months ended September 30, 2011 compared to $56,000 in the three months ended September 30, 2010, and increased to $402,000 in the nine months ended September 30, 2011 compared to $165,000 in the nine months ended September 30, 2010.

The increase in operations expense in 2011 is primarily due to an increase of $94,000 in stock based compensation and an increase in manufacturing supplies and components expense of $128,000 for the year as the operations department continued to revise and adjust various parts and components in the Streamway unit to respond to results of operating the equipment in live surgical settings. The increase in stock based compensation was due to an award of stock options to management in the third quarter. Operations expense in the next several quarters is expected to increase significantly as the Company expects to increase shipments of the Streamway unit as customers complete their evaluations and place orders for billable units.

Sales and Marketing expense. Sales and marketing expense consists of expenses required to sell products through independent reps, attendance at trades shows, product literature and other sales and marketing activities.

Sales and marketing expense increased to $61,000 in the three months ended September 30, 2011 compared to $36,000 in the three months ended September 30, 2010, but decreased to $149,000 in the nine months ended September 30, 2011 compared to $177,000 in the nine months ended September 30, 2010.

During the last several quarters, we have operated on a very slim marketing budget as a result of limited funding. Our VP of Sales position remained vacant for several months and we curtailed our travel and spending on promotional activities. The decrease in the nine-month period is primarily the result of a decrease of $56,000 in salary expense offset, in part, by an increase of $15,000 in stock based compensation and an increase of $13,000 in sales commissions. Sales and Marketing expense is expected to increase significantly in the future as we recently hired a Director of Sales and we expect to hire additional sales and sales support personnel and increase our trade show, promotion and travel expense significantly after we receive significant funding.

Interest expense. Interest expense increased to $61,000 in the three months ended September 30, 2011 compared to $34,000 in the three months ended September 30, 2010, and increased to $176,000 in the nine months ended September 30, 2011 compared to $108,000 in the nine months ended September 30, 2010. The increase in interest expense in the three-month period and the nine-month period was due to a higher level of interest bearing debt and amortization of larger debt discounts attributable to new convertible debt issued with warrants.

The (Gain)/Loss on revaluation of equity-linked financial instruments reflected a gain of $23,000 in the three months ended September 30, 2011 compared to a gain of $349,000 in the three months ended September 30, 2010, and reflected a gain of $214,000 in the nine months ended September 30, 2011 compared to a $1,025,000 gain in the nine months ended September 30, 2010. The reduction in gain in the current periods resulted primarily from a narrowing of the spread between the exercise price on warrants and due to reaching the expiration date on a significant portion of the warrants during the period.

Comparison of Fiscal Year Ended December 31, 2010 and December 31, 2009

Revenue. We recorded revenue of $15,737 in 2009 compared to $288 in 2010. We received approval from the FDA on April 1, 2009 to commence sales and marketing activities of the patented Streamway FMS system and recorded its first shipment in June 2009. Since the system was first approved for sale during 2009 there was no revenue in 2008 or prior years, and there was no significant revenue in 2010 primarily due to lack of funds to build and ship the products.

General and Administrative expense. General and administrative expense consists of, management salaries, professional fees, consulting fees, travel expense, administrative fees and general office expenses.

General and administrative expense increased to $1,874,000 for the year ended December 31, 2010 from $1,598,000 for the year ended December 31, 2009. General and administrative expense increased primarily due to an increase of $62,000 in compensation expense resulting from a settlement with our former chief financial officer, an increase of $118,000 in legal fees and an increase of $618,000 in stock based consulting expense. These increases were offset, in large part, by a reduction of $355,000 in stock based registration payment expense and a $76,000 reduction in cash based consulting expense. Registration payment expense did not continue to accrue after October 19, 2009 because the SEC declared the S-1 registration statement effective on that date. We anticipate that general and administrative expense will increase in absolute dollars in 2011 as we incur increased costs associated with a growing company, of adding personnel, paying market rate salaries, proceeding from the development phase to the operating phase, and complying with public reporting obligations.

Operations expense. Operations expense primarily consists of expenses related to product development and prototyping and testing in the Company's current stage.

Operations expense, including product development expense, decreased to $277,000 in the year ended December 31, 2010 compared to $447,000 in the year ended December 31, 2009, primarily due to a $55,000 decrease in stock based compensation expense, a $64,000 decrease in consulting and testing expenses and a $61,000 decrease in product development expense. The reduction in stock based compensation was due to a large restricted stock grant in 2009 that was not repeated in 2010 and the reductions in testing, consulting and product development expenses were due to the completion of testing and FDA approval in 2009.

Sales and marketing expense. Sales and marketing expense consists of expenses required to sell products through independent reps, attendance at trades shows, product literature and other sales and marketing activities.

Sales and marketing expense declined to $200,000 in 2010 compared to $407,000 in 2009 as a result of a $72,000 reduction in stock based compensation, a $41,000 reduction in salaries and a $85,000 reduction in travel, entertainment, marketing supplies and trade shows. The Company drastically curtailed spending on sales and marketing activities during 2010 due to limited cash but expects this expense to increase significantly in 2011 provided we are successful in raising significant additional capital.

Interest expense. Interest expense increased to $147,000 in the year ended December 31, 2010 from $79,000 in the year ended December 31, 2009, primarily due to a substantial increase in interest bearing convertible debt.

Loss (gain) on valuation of equity-linked financial instrument. The Company realized a gain of $1,145,000 on valuation of equity-linked financial instruments in 2010 compared to a loss of $370,000 in 2009 primarily as a result of a reduction in the market value of the underlying common stock as well as becoming closer to the average maturity of the instruments. The gain or loss in this account in the future will largely depend on the price performance of our stock in the future.

Liquidity and Capital Resources

Cash Flows for the Nine Months Ended September 30, 2011

We had a cash balance of $78,000 as of September 30, 2011 and $20,000 as of September 30, 2010. Since our inception, we have incurred significant losses. As of September 30, 2011, we had an accumulated deficit of approximately $8,901,000. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations, sales and marketing, and general and administrative expenses will increase, and as a result we will need to generate significant revenue to achieve profitability.

There is no certainty that access to needed capital will be successful. We have not depended on the future exercise of outstanding warrants to provide additional funding.

To date, our operations have been funded through a bank loan and private convertible debt in the amount of approximately $1,377,000 and equity investments totaling approximately $3,562,000. As of September 30, 2011, we had accounts payable of $720,000 and accrued liabilities of $552,000. Account payable has declined to $720,000 as of September 30, 2011 from $769,000 as of December 31, 2010 primarily due to the issuance of a convertible note in the amount of $89,300 to one of our law firms as full settlement of the accounts payable balance as of January 1, 2011.

Net cash used in operating activities was $1,186,000 in the nine months ended September 30, 2011 compared to $773,000 net cash used in operating activities in the nine months ended September 30, 2010. The increase in cash used in operations was primarily the result of more payments against delinquent accounts payable than we had been able to achieve in the past due to an increase in cash from financing activities.

Net cash used in investing activities was zero in the nine months ended September 30, 2011 and 2010. There have been no investing activities since we invested in new furniture and patents in 2008. We will likely increase its cash used in investing activities in the next several quarters as we prepare to support the expected growth in sales.

Net cash provided by financing activities was $1,254,000 in the nine months ended September 30, 2011 compared to $777,000 in the same 2010 period. We expect to show additional cash provided by financing activities in the next few quarters provided we are successful in raising money with our investment banker.

Cash Flows for the Fiscal Year Ended December 31, 2010

We had a cash balance of $9,383 as of December 31, 2010 and $16,632 as of December 31, 2009. Since our inception, we have incurred significant losses, and as of December 31, 2010, we had an accumulated deficit of approximately $7,382,000. We have not achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our operations expense, including product development expense, sales and marketing and general and administrative expenses will increase, and as a result, we will need to generate significant revenue to achieve profitability.

Through December 31, 2010, our operations have been funded through a bank loan in the original amount of $41,400, a private party loan totaling $10,000, convertible debt in the amounts of $1,126,000 and equity investments totaling approximately $2,537,000. The $170,000 in convertible debt from 2007 was converted into 620,095 shares of our Common Stock as of October 19, 2009. As of December 31, 2010, we had accounts payable of $769,000 and accrued liabilities of $499,000.

Net cash used in operating activities was $821,000 for 2010 as compared with net cash used of $1,310,000 for 2010. The $489,000 reduction in cash used in operating activities was largely due to a $1,540,000 reduction in the net loss in 2010, compared to 2009, offset by a reduction of $1,582,000 in non-cash expenses compared to 2009.

Cash flows used in investing activities was zero for 2010 and 2009. We have not spent cash in investing activities since 2008 when $42,000 in cash was used in investing activities consisting of $30,000 in investments in intellectual property and $12,000 in purchases of furniture.

Net cash provided by financing activities was $813,000 for 2010 as compared to net cash provided by financing activities of $863,000 for 2009. The decrease in 2010 was primarily the result of conversion of debt into equity in 2009 and selling only $220,000 in common stock in 2010 compared to $625,000 in 2009. This was offset, in part, by an increase of $504,000 in convertible debt net of repayments in 2010.

Capital Resources

Based on our current operating plan we believe that we have sufficient cash, cash equivalents and short-term investment balances to last approximately through February 2012 after which additional financing will be needed to continue to satisfy our obligations. While holders of our warrants could exercise and provide cash to us during that time frame, we are not depending on that in our fundraising efforts.

Management hired an investment banker in 2010 to raise an additional $3-$5 million in new equity. The banker was unable to raise the expected $500,000 by September 30, 2010 and the balance within 3 months, but we raised approximately $229,000 in equity and $605,000 in convertible debt in 2010, and $992,000 in equity and $251,000 in convertible debt in 2011 through alternative means. Although our ability to raise this new capital is in substantial doubt it received approximately $2,075,000 through private placements of equity and convertible debt in 2010 and 2011, and our April 1, 2009 510(k) clearance from the FDA to authorize the Company to market and sell its FMS products is being received very positively. We engaged a new investment banker in May 2011 to raise approximately $2 million, and if we are successful in raising at least $2 million in new equity we will have sufficient capital to operate our business and execute our business plan for at least the next 12 months. We have a commitment from an institutional investor for $500,000 in convertible debt that is contingent on the Company raising a minimum of an additional $500,000 of convertible debt. If we raise the additional capital by issuing additional equity securities, our existing shareholders will likely experience substantial dilution.

The funds from our October 2008 offering have allowed us to complete the testing and certification of our FMS unit and to receive, on April 1, 2009, final FDA clearance. We believe that our existing funds will also be sufficient to pay for normal operating expenses as we wait for additional funding. We have doubts about raising capital because of our early stage position and history of losses. We also note the recent economic downturn which has made the overall market nervous about investing.

Our operating plan assumes that we will achieve certain levels of operating costs and expenses, as to which there can be no assurance that we will be able to achieve. This plan is completely dependent on our ability to raise additional capital through future financings. In addition, if events or circumstances occur such that we are unable to meet our operating plan as expected, we will be required to seek additional capital, pursue other strategic opportunities, or we will be forced to reduce the level of expenditures, which could have a material adverse effect on our ability to achieve our intended business objectives and to continue as a going concern. Even if we achieve our operating plan, we will be required to seek additional financing or strategic relationships.

The current economic turmoil has a significant impact on the overall funding environment, and we cannot assure you that our opportunity will be positively received by potential investors. We are not planning on any significant capital or equipment investments, and we will only have a few human resource additions over the next 12 months. A significant amount of funds will be utilized to launch our product into the market. With the expenses associated with FDA clearance having already been incurred, and with the product development primarily complete, future funds, if any, will be used primarily to launch our product into the market.

There can be no assurance that any additional financing will be available on acceptable terms, or at all. Furthermore, any equity financing likely will result in dilution to existing shareholders and any debt financing likely will include restrictive covenants.

We expect to continue to depend upon outside financing to sustain our operations for at least the next 12 months. Our ability to arrange financing from third parties will depend upon our operating performance and market conditions. Our inability to raise additional working capital at all or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately forcing us to go out of business. Should this occur, the value of any investment in our securities could be adversely affected, and an investor could lose a portion of or all of their investment.

MANAGEMENT

Our directors and executive officers, their ages, their respective offices and positions, and their respective dates of election or appointment are as follows:

Name	Age	Position	Date of Election or Appointment
Lawrence W. Gadbaw	73	Chairman of the Board of Directors	2002
Kevin R. Davidson	51	President, Chief Executive Officer,	2006
		Chief Financial Officer and Director	January 2009
Chad A. Ruwe	46	Director	2009
Peter L. Morawetz	83	Director	2002
Thomas J. McGoldrick	69	Director	2005
Andrew P. Reding	41	Director	2006
Albert Emola	61	Director	December 22, 2011
Jeffrey Galitz	54	Director	January 3, 2012

Business Experience Descriptions

Set forth below is a summary of our executive officers' and directors' business experience for the past 5 years. Other than as described below, the experience and background of each of the directors, as summarized below, were significant factors in their previously being nominated as directors of the Company.

Lawrence W. Gadbaw. Mr. Gadbaw has served as a director and Chairman of the Board since our inception in 2002. He served as our President and Chief Executive Officer from 2002 to 2006 and Executive Vice President Business Development from 2006 to 2008. Mr. Gadbaw has been retired since 2008. He was Chairman of Health Care Marketing, Inc., a manufacturer and marketer of health care products, since 1992. From 1990 to 1992, he was President, Chief Operating Officer and Director of Augustine Medical, Inc., a manufacturer of hypothermia treatment products. Mr. Gadbaw was President, Chief Executive Officer, Treasurer and Director of Bio-Vascular, Inc., a manufacturer of tissue and biosynthetic-based medical devices and grafts for cardiovascular surgery, from 1985 to 1989. From 1979 to 1981, he was Director of Sales and Marketing for Medical Incorporated, a manufacturer of cardiovascular products. Mr. Gadbaw was General Manager of Sween Corporation, a manufacturer of health care products, from 1977 to 1979. He held numerous positions in marketing and sales with Medtronic, Inc., a manufacturer and distributor of cardiovascular products from 1967 to 1977, including the position of Director of U.S. Sales. We believe Mr. Gadbaw's experience in the healthcare and medical device industries as well as being a co-founder of BioDrain makes him a valuable member of the Board.

Kevin R. Davidson. Mr. Davidson has served as our President, Chief Executive Officer, and a director since 2006 and Chief Financial Officer since January 2009. He has over 20 years of experience in the medical technology sector. He has been the Chief Financial Officer of three medical technology companies including his most recent position from 2002 to 2006 as Chief Financial Officer, Vice President of Business Development at OrthoRehab, Inc., where he led the successful sale of the organization to Otto Bock GmbH. In addition to his Chief Financial Officer experience, Mr. Davidson was an investment banker in the medical technology sector as a Managing Director with the Arthur Andersen Global Corporate Finance Group from 1998 to 2002, where he led and closed several transactions in this sector. Mr. Davidson also has experience in the corporate development function in the medical area, including holding positions at St. Jude Medical, Inc. from 1989 to 1992. In addition, he has extensive domestic and international experience as a management consultant in this area. Mr. Davidson received a BA in Economics from Gustavus Adolphus College in 1982 and an MBA from The Colgate Darden Graduate School of Business Administration at the University of Virginia in 1986.

Chad A. Ruwe. Mr. Ruwe became our Executive Vice President of Operations in 2008 and was promoted to Chief Operating Officer and a director in 2009. He left the position of COO in December 2011. He has over 20 years experience in global business leadership in critical fluid management industries focused on containment, management, and delivery of highly toxic and corrosive fluids. From 2002 to 2007, he held several senior management positions with Entegris, Inc., including General Manager of NT International, a wholly owned subsidiary of Entegris, from March 2002 to December 2003, Vice President of the Fluid Handling Systems business, Vice President of Corporate Marketing from August 2005 to January 2006, Vice President of the Semiconductor business and Vice President & General Manager of the Liquid Micro-Contamination business from January 2006 to December 2008. From March 1996 to February 2002, Mr. Ruwe was with Tescom Corporation (now part of Emerson's Climate Technologies Group) serving as Vice President & General Manager of the High Purity Controls Division and Hankuk Tescom, Ltd., an assembly and test facility in South Korea. Mr. Ruwe held several management level positions at Parker Hannifin Corporation from 1987 to 1996. Mr. Ruwe has previously served on the board of directors for two early stage venture start-ups. He holds a Master of Science degree in Management, specializing in Operations Research, from the University of Alabama, Huntsville, and he received his Bachelor of Science degree in Mechanical Engineering, specializing in Fluid Dynamics, from The Ohio State University in Columbus, Ohio.

Peter L. Morawetz, PhD. Dr. Morawetz has been a consultant to development-stage companies in the medical and high technology field and has been retired since 2005. He has served as a director of the Company since its inception in 2002. From 1985 to 2002, he provided consulting services in the fields of technology and product positioning for a large number of U.S. and foreign corporations. Notable clients included Medtronic, EMPI, Hutchinson Technologies, Minntech, Bauer Biopsy Needles, American Medical, Lectec and Walker Reading Technologies. In the course of a thirty-year career, he covered progressively important positions in engineering and R&D management. His contributions include development of neurological devices at Medtronic, Inc. from 1971 to 1981 and EMPI, Inc. from 1981 to 1985, as well as magnetic-storage devices at Univac from 1958 to 1961 and again from 1965 to 1967 and Fabri-Tek from 1961 to 1965. He has seven patents and has been active in market planning and corporate development. We believe that Dr. Morawetz's extensive consulting experience with development-stage companies and role as a co-founder of BioDrain are strong endorsements for membership on our Board.

Thomas J. McGoldrick. Mr. McGoldrick has served as a director of the Company since 2005. Mr. McGoldrick has been retired since 2005. Prior to that, he served as Chief Executive Officer of Monteris Medical Inc. from November 2002 to November 2005. He has been in the medical device industry for over thirty years and was co-founder and Chief Executive Officer of Fastitch Surgical in 2000. Fastitch is a startup medical device company with unique technology in surgical wound closure. Prior to Fastitch, Mr. McGoldrick was President and Chief Executive Officer of Minntech from 1997 to 2000. Minntech was a $75 million per year publicly traded (Nasdaq-MNTX) medical device company offering services for the dialysis, filtration, and separation markets. Prior to employment at Minntech from 1970 to 1997, he held senior marketing, business development and international positions at Medtronic, Cardiac Pacemakers, Inc. and Johnson & Johnson. Mr. McGoldrick is on the board of directors of two other startup medical device companies. We believe Mr. McGoldrick's experience as CEO of a public company and extensive experience in the medical device industry provide valuable insight on our Board.

Andrew P. Reding. Mr. Reding is an executive with extensive experience in sales and marketing of capital equipment for the acute care markets. He has served as a director of the Company since 2006, and he is currently the President and Chief Executive Officer of TRUMPF Medical Systems, Inc., a position he has held since April 2007. Prior to that, he was Director of Sales at Smith & Nephew Endoscopy from December 1994 to May 2006, and he served as Vice President of Sales and Director of Marketing with Berchtold Corporation from May 2006 to April 2007. His experience is in the marketing and sales of architecturally significant products for the operating room, emergency department and the intensive care unit. Mr. Reding has successfully developed high quality indirect and direct sales channels, implemented programs to interface with facility planners and architects and developed GPO and IDN portfolios. Mr. Reding holds a bachelors degree from Marquette University and an MBA from The University of South Carolina. We believe Mr. Reding's strong experience in sales and marketing of capital equipment to hospital operating rooms provides unique insight into the industry we serve and makes him a valued member of the Board.

Albert Emola. Effective December 22, 2011, Albert Emola was elected to the Board of Directors of BioDrain Medical, Inc. Mr. Emola has been in the healthcare industry for over thirty years and has served as President and CEO at both private and public companies, including StentTech Inc (2003-2008), Vital Images Inc (1999-2002) and FlexMedics Inc (1995-1999). Prior to this he was Vice President, Business Development for St. Jude Medical Inc (1985-1991). Mr. Emola began his career in marketing at Bristol-Myers/Squibb followed by marketing, strategic planning and business development positions at American Hospital Supply Corporation. He has served on the Boards of DesignWise Medical, Vital Images Inc, StentTech Inc, Medafor Corporation and Enpath Medical Inc. He holds an MBA from Indiana University's Kelley School of Business and a BS degree from the State University of New York. He is currently consulting with medical device start-ups and turnarounds.

Jeffrey Galitz. Dr. Galitz was elected to the Board of Directors on January 3, 2012. He is a nationally renowned Board Certified Foot and Ankle surgeon based in South Florida. Dr Galitz has the unique distinction of being both a licensed Physician and Podiatrist. Dr. Galitz is the founding partner and Chairman of the Wound Technology Network. WTN is the most award winning wound management company in the country and the nation's leader in Telehealth Services covering over 9 million lives nationally. In addition to WTN, Dr Galitz is the founder and President of Podicare, Inc. one of the largest podiatric physician networks with over 125 locations which has been providing services to managed care companies for close to 20 years. Dr Galitz is also cofounder of PodiCare Purchasing Co-op, an online medical supply company. He has served as Director of the Podiatric surgical residency at Memorial Hospital in Hollywood in addition to serving on the hospital's Medical Executive committee. Dr. Galitz has served on the Healthcare Industry Liaison committee for the American College of Foot and Ankle Surgeon. In addition, he has been a Medical Advisor to many of the largest pharmaceutical companies and has lectured on a national scale.

Family Relationships

Andrew Reding is the step-brother-in-law to Kevin Davidson. There are no other family relationships among our directors and executive officers.

Audit Committee of the Board; Audit Committee Financial Expert

The Audit Committee was established by the Board in accordance with Section 3(a)(58)(A) of the Exchange Act to oversee our corporate accounting and financial reporting processes and audits of our financial statements.

The functions of the Audit Committee include, among other things:

- serving as an independent and objective party to monitor our financial reporting process and internal control system;
- coordinating, reviewing and appraising the audit efforts of our independent auditors and management and, to the extent we have an internal auditing or similar department or persons performing the functions of such department ("internal auditing department" or "internal auditors"), the internal auditing department; and
- communicating directly with the independent auditors, financial and senior management, the internal auditing department, and the Board of Directors regarding the matters related to the committee's responsibilities and duties.

Both our independent registered public accounting firm and management periodically meet privately with the Audit Committee.

Our Audit Committee currently consists of Mr. Gadbaw as the chairperson and Mr. Reding. Each Audit Committee member is a non-employee director of our Board. The Board of Directors reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all current members of our Audit Committee are independent (as independence is currently defined in Rule 5605(a)(2) of the Nasdaq listing standards). The Audit Committee met four times in fiscal 2010.

Director Independence

Although we are not required to comply with the Nasdaq Stock Market listing standards, we use these listing standards as our guide toward determining independence of our directors and other areas of corporate governance. Under Nasdaq listing standards, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by the board of directors. The Board of Directors consults with our counsel to ensure that the Board of Directors' determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of the Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management, and its independent registered public accounting firm, the Board of Directors has affirmatively determined that the following directors and nominees are independent directors within the meaning of the Nasdaq listing standards: Messrs. Ruwe, Gadbaw, McGoldrick, Reding, and Emola, and Dr. Morawetz, In making this determination, the Board of Directors found that none of these directors and nominees had a material or other disqualifying relationship with the Company. Mr. Davidson, our President, Chief Executive Officer, and Chief Financial Officer, is not independent by virtue of his employment with the Company.

Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership, and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4, and 5 respectively. Executive officers, directors, and greater than 10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based solely upon a review of the copies of such forms furnished to the Company, or written representations that no reports were required, we believe that for the fiscal year ended December 31, 2011, beneficial owners complied with Section16(a) filing requirements applicable to them except as follows:

- Albert Emola was elected a director on December 22, 2011, but he did not file a Form 3.
- On August 4, 2011, Chad A. Ruwe filed a Form 4 reporting an event that occurred on June 14, 2011 and 2 events that occurred on August 2, 2011. Mr. Ruwe untimely reported the June 14, 2011 event.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Dr. Morawetz and Mr. McGoldrick. No member of the Compensation Committee has ever been an executive officer or employee of ours. None of our officers currently serves, or has served during the last completed year, on the compensation committee or the board of directors of any other entity that has one or more officers serving as a member of the Board of Directors or the Compensation Committee.

Code of Business Conduct and Ethics

On November 14, 2008, the Board adopted the Code of Ethics of BioDrain Medical, Inc. that applies to all of our officers, directors, and employees. We intend to maintain the highest standards of ethical business practices and compliance with all laws and regulations applicable to our business. The Code of Ethics was filed as Exhibit 14 to the Company's Registration Statement on Form S-1/A filed with the SEC on January 12, 2009.

EXECUTIVE COMPENSATION

Executive Compensation Components for Fiscal 2010

Base salary is an important element of our executive compensation program as it provides executives with a fixed, regular, non-contingent earnings stream to support annual living and other expenses. As a component of total compensation, we generally set base salaries at levels believed to attract and retain an experienced management team that will successfully grow our business and create shareholder value. We also utilize base salaries to reward individual performance and contributions to our overall business objectives, but seek to do so in a manner that does not detract from the executives' incentive to realize additional compensation through our stock options and restricted stock awards.

The Compensation Committee reviews the Chief Executive Officer's salary at least annually. The Compensation Committee may recommend adjustments to the Chief Executive Officer's base salary based upon the Compensation Committee's review of his current base salary, incentive cash compensation and equity-based compensation, as well as his performance and comparative market data. The Compensation Committee also reviews other executives' salaries throughout the year, with input from the Chief Executive Officer. The Compensation Committee may recommend adjustments to other executives' base salary based upon the Chief Executive Officer's recommendation and the reviewed executives' responsibilities, experience and performance, as well as comparative market data.

In utilizing comparative data, the Compensation Committee seeks to recommend salaries for each executive at a level that is appropriate after giving consideration to experience for the relevant position and the executive's performance. The Compensation Committee reviews performance for both our Company (based upon achievement of strategic initiatives) and each individual executive. Based upon these factors, the Compensation Committee may recommend adjustments to base salaries to better align individual compensation with comparative market compensation, to provide merit-based increases based upon individual or company achievement, or to account for changes in roles and responsibilities.

Our employment agreement, dated October 4, 2006, with Kevin R. Davidson, President and Chief Executive Officer, provided that his initial annual base salary would be $150,000 and that his base salary for subsequent years is to be determined by the Board. We offered this amount as part of a package of compensation for Mr. Davidson sufficient to induce him to join our Company. The compensation package for Mr. Davidson was designed to provide annual cash compensation, combined with the equity compensation described below, sufficient to induce him to join the Company and continue to incentivize him to create revenue growth and shareholder value. Based upon the recommendation of the Compensation Committee, the Board approved an increase to Mr. Davidson's base salary rate from $160,000 to $170,000 for calendar 2009, which remains his current salary.

Stock Option and Other Equity Awards

Consistent with our compensation philosophies related to performance-based compensation, long-term shareholder value creation and alignment of executive interests with those of shareholders, we make periodic grants of long-term compensation in the form of stock options or restricted stock to our executive officers, directors and others in the organization.

Stock options provide executive officers with the opportunity to purchase common stock at a price fixed on the grant date regardless of future market price. A stock option becomes valuable only if the common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option shares to vest. This provides an incentive for an option holder to remain employed by us. In addition, stock options link a significant portion of an employee's compensation to shareholders' interests by providing an incentive to achieve corporate goals and increase shareholder value. Under our 2008 Equity Incentive Plan (the "2008 Plan"), we may also make grants of restricted stock awards, restricted stock units, performance share awards, performance unit awards and stock appreciation rights to officers and other employees. We adopted the 2008 Plan to give us flexibility in the types of awards that we could grant to our executive officers and other employees.

Limited Perquisites; Other Benefits

We intend to provide our employees with a full complement of employee benefits, including health and dental insurance, short term and long term disability insurance, life insurance and a 401(k) plan but have currently only provided a health insurance plan due to limited funding. As our business grows we will look to implement the balance of the benefit plans that will be competitive with other companies in our industry and within our geographical area.

Potential Payments upon Termination or Change of Control

Most of our stock option agreements provide for an acceleration of vesting in the event of a change in control as defined in the agreements. Additionally, the restricted stock agreements that were awarded to management and directors in 2009 and 2010 also provide for an acceleration of vesting in the event there is a change in control as defined in the 2008 Plan.

Under the employment agreement with Mr. Davidson, he will be entitled to severance pay equal to twelve months pay in the event his employment is terminated as a result of a change in control of more than 40% of our common stock.

Summary Compensation Table for Fiscal 2010 and 2009

The following table provides information regarding the compensation earned during the fiscal years ended December 31, 2010 and December 31, 2009 by each of our named executive officers:

Name and Principal Position	Year	Salary	Bonus	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compen-sation	Non-qualified Deferred Compen-sation Earnings	Total
Kevin R. Davidson,	2010	$ 170,000	$ —	$ —	$ 61,126	$ —	$ —	$ 231,126
President, CEO, and CFO	2009	$ 170,000	$ —	$ 150,000	$ —	$ —	$ —	$ 320,000
Chad A. Ruwe,	2010	$ 135,000	$ —	$ —	$ 40,591	$ —	$ —	$ 175,591
COO (1)	2009	$ 135,000	$ —	$ 100,000	$ —	$ —	$ —	$ 235,000

(1) Mr. Ruwe joined the Company as Executive Vice President of Operations in June 2008 and became Chief Operating Officer in 2009. He left the position of COO in December 2011.

(2) Restricted stock awards were granted to management and directors under the 2008 Plan on August 24, 2009. The value of the stock was determined to be $.50 per common share on the date of the grant as determined pursuant to FASB ASC 718 - *Stock Compensation*.

(3) Represents the full value of options to purchase 1,500,000 shares of common stock at $.15 per share granted to the named executive officer in 2010. The value expressed represents the actual compensation cost recognized during 2010 as determined pursuant to FASB ASC 718 - *Stock Compensation,* because the options vested immediately, utilizing the assumptions discussed in Note 3, "Stock Options and Warrants," in the notes to financial statements included in our Form 10-K filed on March 31, 2011.

Outstanding Equity Awards at Fiscal Year-end for Fiscal 2010

The following table sets forth certain information regarding outstanding equity awards held by the named executive officers as of December 31, 2010:

	Option Awards					Stock Awards	
	Grant Date	Number of Securities Underlying Options Exercisable	Number of Securities Underlying Options Unexercisable	Option Exercise Price	Option Expiration Date	Equity Incentive Plan Awards; Number of Shares Vested	Equity Incentive Plan Awards; Number of Shares Unvested
Kevin R. Davidson	6/5/2008	543,292	—	$ 0.01	6/5/2018	—	—
	6/11/2008	—	80,000	$ 0.35	6/11/2013	—	—
	8/24/2009	—	—	—	—	—	300,000
	11/16/2010	800,000	—	0.15	11/15/2020	—	—
Chad A. Ruwe	6/16/2008	200,000	50,000	$ 0.35	6/16/2013	—	—
	8/24/2009	—	—	—		—	200,000
	11/16/2010	700,000	—	0.15	11/15/2020	—	—

Director Compensation

Our directors are not paid cash compensation for their service on the Board except for Lawrence Gadbaw, who is paid $2,000 per month for his service as Chairman of the Board. In addition, Mr. Gadbaw receives $2,000 per month as payment under his Separation Agreement and Release dated August 13, 2008. The final payment under this agreement was made January 12, 2011.

Beginning in 2009, the Board instituted an annual restricted stock award program for non-employee directors, except for the Chairman, under which they would be awarded 20,000 shares of restricted stock annually on each anniversary date of service on the Board. The Board further determined that Mr. McGoldrick, Mr. Reding, and Dr. Morawetz would be awarded 40,000 shares, 20,000 shares, and 100,000 shares of common stock, respectively, for their prior service on the Board. Mr. Gadbaw is entitled to a stock option, as of September 30 of each year that he continues to serve as Chairman of the Board, to purchase 30,000 shares of common stock for a fixed price that is determined by the Board to be the market value on the date of grant. Mr. Gadbaw was granted an option to purchase 30,000 shares of common stock at $.50 per share on November 13, 2009. The option is immediately vested and has a term of three years. The Board modified the grant of restricted stock in 2010 to be 75,000 shares per non-employee director, except for the Chairman, and the Chairman received an option to purchase 85,000 shares at $.15 per share. The option vested immediately and has a three year term.

The following table summarizes the compensation paid to each non-employee director in the fiscal year ended December 31, 2010.

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards (1)(2)	Total
Lawrence W. Gadbaw	$ 40,000	—	$ 5,728	$ 45,728
Peter L. Morawetz	—	$ 11,250	$ —	$ 11,250
James E. Dauwalter (3)	—	$ 11,250	—	$ 11,250
Thomas J. McGoldrick	—	$ 11,250	—	$ 11,250
Andrew P. Reding	—	$ 11,250	—	$ 11,250

(1) Mr. Gadbaw received $2,000 per month as compensation for serving as Chairman of the Board, $2,000 per month until August 2010 as payment under a Separation Agreement and Release dated August 13, 2008 and an option to purchase 85,000 shares of common stock at $.15 per share on November 16, 2010. The value of the option was determined to be $5,728 in accordance with FASB ASC 718 - *Stock Compensation* using the Black-Scholes option valuation model and, because the option was immediately vested, this amount was expensed in full during fiscal 2010.

(2) Mr. McGoldrick, Dr. Morawetz, Mr. Reding and Mr. Dauwalter each received 75,000 shares of restricted stock that was determined by the board to be worth $.15 per share. The shares will vest upon a change in control, attaining an average daily trading volume of 50,000 shares or upon reaching a minimum level of profitability for six consecutive quarters. The shares will be forfeited at the end of 10 years if such vesting conditions are not met.

(3) Mr. Dauwalter was a director of the Company during the 2010 fiscal year and resigned on January 13, 2011.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of January 24, 2012 certain information regarding beneficial ownership of our common stock by:

- Each person known to us to beneficially own 5% or more of our common stock;
- Each named executive officer;
- Each of our directors; and
- All of our named executive officers and directors as a group.

We determine beneficial ownership in accordance with Rule 13d-3 under the Exchange Act. Beneficial ownership generally means having sole or shared voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to the table, each stockholder named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite the stockholder's name. We have based our calculation of the percentage of beneficial ownership on 30,527,328 shares of the Company's common stock outstanding on January 24, 2012. Unless otherwise noted below, the address for each person or entity listed in the table is c/o BioDrain Medical, Inc., 2060 Centre Pointe Boulevard, Suite 7, Mendota Heights, Minnesota 55120.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Executive Officers and Directors:		
Lawrence W. Gadbaw (2)	254,563	*
Kevin R. Davidson (3)	1,676,726	5.49%
Chad A. Ruwe (4)	2,110,572	6.91%
Peter L. Morawetz	286,245	*
Thomas J. McGoldrick (5)	124,491	*
Andrew P. Reding (6)	122,447	*
Albert Emola	0	*
Jeffrey Galitz	0	*
5% Shareholders:		
Ron Levine (7)	4,740,509	15.53%
Carl Schwartz (8)	1,833,333	6.01%
Dean M. and Carol L. Ruwe (9)	1,974,603	6.47%
All directors and executive officers as a group (8 persons)	4,575,044	14.99%

* Less than 1%.

(1) Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding.

(2) Includes (i) options to purchase 30,000 shares of common stock at a price of $.50 per share and (ii) options to purchase 85,000 shares at $.15 per share.

(3) Includes (i) options to acquire 543,292 shares of common stock at $.01 per share and (ii) options to acquire 800,000 shares of common stock at $.15 per share.

(4) Includes (i) options to acquire 200,000 shares of common stock at $.35 per share, and (ii) options to acquire 700,000 shares of common stock at $.15 per share. Does not include 621,429 shares of common stock underlying warrants because such securities contain a restriction on exercise limiting the holder’s ability to exercise to the extent that such exercise would cause the beneficial ownership of the holder, together with its affiliates, to exceed 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock as a result of an exercise.

(5) Includes options to acquire up to 5,985 shares of common stock granted pursuant to a director stock option agreement by and between Mr. McGoldrick and the Company.

(6) Includes options to acquire 23,941 shares of common stock granted pursuant to a director stock option agreement by and between Mr. Reding and the Company.

(7) Includes 1,746,667 shares of common stock registered to the Ron Levine IRA, 118,408 shares of common stock registered to Bellejule Partners, LP, 1,666,667 shares of common stock registered to the Carole Levine IRA, and 1,208,767 shares of common stock registered to Caron Partners, LP. This number does not include 330,000 shares of common stock underlying warrants registered to the Ron Levine IRA, 71,429 shares of common stock underlying warrants registered to Bellejule Partners, LP, and 4,530,001 shares of common stock underlying warrants registered to Caron Partners, LP because such securities contain a restriction on exercise limiting the holder’s ability to exercise to the extent that such exercise would cause the beneficial ownership of the holder, together with its affiliates, to exceed 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock as a result of an exercise. Ron Levine is the beneficial owner of, and natural person with voting and dispositive power over, these securities. Beth Levine is the general partner of Caron Partners, LP, and, in such capacity, may also be deemed to have voting and dispositive power over the securities registered to Caron Partners, LP. Carole Levine may also be deemed to have voting and dispositive power over the securities registered to the Carole Levine IRA.

(8) This number does not include 1,833,333 shares of common stock underlying warrants because such securities contain a restriction on exercise limiting the holder’s ability to exercise to the extent that such exercise would cause the beneficial ownership of the holder, together with its affiliates, to exceed 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock as a result of an exercise.

(9) Includes 1,774,603 shares of common stock underlying convertible debt. This number does not include 1,831,112 shares of common stock underlying warrants because such securities contain a restriction on exercise limiting the holder's ability to exercise to the extent that such exercise would cause the beneficial ownership of the holder, together with its affiliates, to exceed 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock as a result of an exercise. These security holders are the parents of Chad A. Ruwe, a member of our Board.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

There are no reportable related party transactions since January 1, 2011.

DESCRIPTION OF SECURITIES

The following information describes our capital stock and provisions of our articles of incorporation and our bylaws. This description is only a summary. You should also refer to our articles of incorporation and bylaws, each as amended, that have been incorporated by reference or filed with the SEC as exhibits to the registration statement on Form S-1 of which this prospectus forms a part.

General

We are authorized to issue 200 million shares of capital stock, of which there is only one class of shares designated as common stock.

Common Stock

The securities being offered by the selling stockholder are shares of our common stock. As of January 24, 2012, we had 30,527,328 shares of common stock issued and outstanding and held by 112 shareholders of record.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders, provided that no proxy shall be voted if executed more than one year prior to the date of the stockholders' meeting except as may otherwise be provided by our board of directors from time to time. Only stockholders of record at the close of business on day twenty prior to the date of the meeting are entitled to vote at the stockholders' meeting. Holders of our common stock do not have cumulative voting rights.

The holders of common stock are entitled to receive ratably any dividends that may be declared from time to time by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities. The common stock has no preemptive or conversion rights or other subscription rights and there are no redemption provisions applicable to our common stock. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock offered in this offering will be fully paid and not liable for further call or assessment.

Except for directors, who are elected by receiving the highest number of affirmative votes of the shares entitled to be voted for them, or as otherwise required by Minnesota law, and subject to the rights of the holders of preferred stock then outstanding (if any), all shareholder action is taken by the vote of a majority of the issued and outstanding shares of common stock present at a meeting of shareholders at which a quorum consisting of a majority of the issued and outstanding shares of common stock is present in person or proxy. In the absence of a quorum for the transaction of business, any meeting may be adjourned from time to time. The stockholders present at a duly called or held meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Our President or, in his absence, the Vice-President or any other person designated from time to time by the board of directors, shall preside at all meetings of stockholders.

Warrants and Convertible Debt

As of December 31, 2011, there were outstanding warrants to purchase 25,482,873 shares of our common stock and outstanding and vested options to purchase 4,818,657 shares of our common stock. We issued a convertible debenture to Andcor Companies, Inc. with principal of $10,000 and interest at 10.25% that matures on March 31, 2012, which debenture is convertible at $0.35 per share.

Dividends

We have never paid dividends and do not currently intend to pay any dividends on our common stock in the foreseeable future. Instead, we anticipate that any future earnings will be retained for the development of our business. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including, but not limited to, our financial condition, operating results, cash needs, growth plans, the terms of any credit agreements that we may be a party to at the time and the Minnesota Business Corporations Act, which provides that dividends are only payable out of surplus or current net profits.

Registration Rights

Under the Note Purchase Agreement we entered into with the selling stockholder on December 20, 2011, we are obligated to register the following securities to permit the offer and resale from time to time of such securities: (i) all 1,500,000 common stock shares issued to the selling stockholder as an "Equity Bonus"; (ii) all 46,667 common stock shares issued to the selling stockholder as a fee for the selling stockholder attending Company Board meetings during the life of a promissory note issued to the selling stockholder under the Note Purchase Agreement; and (iii) all 150,000 common stock shares issuable to the selling stockholder as an "Additional Bonus" that are due to the selling stockholder in the event that the Company pre-pays the promissory note. We are also, however, registering 7,500,000 shares of our common stock that we issued under the Note Purchase Agreement to the selling stockholder as security for our obligations under the promissory note. We verbally agreed to file the registration statement registering these securities by January 10, 2012, which deadline differs from, and subsequently revised, the deadline to file set forth in the Note Purchase Agreement.

Anti-Takeover Effects of Certain Provisions of Minnesota Law

Certain provisions of Minnesota law described below could have an anti-takeover effect. These provisions are intended to provide management flexibility, to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage an unsolicited takeover if our board of directors determines that such a takeover is not in our best interests or the best interests of our shareholders. These provisions, however, could have the effect of discouraging certain attempts to acquire us that could deprive our shareholders of opportunities to sell their shares of our stock at higher values.

Section 302A.671 of the Minnesota Business Corporation Act applies, with certain exceptions, to any acquisitions of our stock (from a person other than us, and other than in connection with certain mergers and exchanges to which we are a party) resulting in the beneficial ownership of 20% or more of the voting stock then outstanding. Section 302A.671 requires approval of any such acquisition by a majority vote of our shareholders prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable by us at their then-fair market value within 30 days after the acquiring person has failed to give a timely information statement to us or the date the shareholders voted not to grant voting rights to the acquiring person's shares.

Section 302A.673 of the Minnesota Business Corporation Act generally prohibits any business combination by us, or any of our subsidiaries, with an interested shareholder, which means any shareholder that purchases 10% or more of our voting shares within four years following such interested shareholder's share acquisition date, unless the business combination is approved by a committee of all of the disinterested members of our board of directors before the interested shareholder's share acquisition date.

Market Price of and Dividends on Common Equity and Related Shareholder Matters

Our common stock is not listed on any stock exchange. Our common stock is quoted by the OTC Bulletin Board under the symbol "BIOR.OB." The following table sets forth the high and low bid information for our common stock for each quarter within our last two fiscal years as reported by the OTC Bulletin Board. The bid prices reflect inter-dealer quotations, do not include retail markups, markdowns, or commissions, and do not necessarily reflect actual transactions.

	High	Low
2011		
Quarter ended December 31, 2011	$ —	$ —
Quarter ended September 30, 2011	$ —	$ —
Quarter ended June 30, 2011	$ —	$ —
Quarter ended March 31, 2011	$ —	$ —
2010		
Quarter ended December 31, 2010	$ 0.17	$ 0.10
Quarter ended September 30, 2010	$ 0.38	$ 0.12
Quarter ended June 30, 2010	$ 0.90	$ 0.12
Quarter ended March 31, 2010	$ *	$ *

* Our common stock had no active trading market until April 2010.

As of January 23, 2012, the closing price for shares of our common stock was $0.195 per share on the OTC Bulletin Board.

Holders

As of January 24, 2012, there were approximately 112 shareholders of record of our common stock.

Dividends

We follow a policy of retaining earnings, if any, to finance the expansion of our business. We have not paid, and do not expect to declare or pay, cash dividends in the foreseeable future.

LEGAL MATTERS

Richardson & Patel LLP has rendered an opinion regarding the legality of the issuance of the shares of common stock being registered in this prospectus. As of January 5, 2012, principals, employees, and affiliates of Richardson & Patel LLP are holders of record of an aggregate 1,390,538 shares of common stock broken down as follows:

- Richardson & Patel LLP owns 60,714 shares of our common stock.
- Erick Richardson, a principal, owns 468,326 shares of our common stock.
- Nimish Patel, a principal, owns 481,194 shares of our common stock.
- RP Capital, a limited liability company owned by Messrs. Richardson and Patel, owns 183,991 shares of our common stock.
- Other Richardson & Patel LLP employees own 196,313 shares of our common stock.

EXPERTS

Our financial statements for the fiscal years ended December 31, 2010 and December 31, 2009 were audited by our independent auditors, Olsen Thielen & Co., Ltd., certified public accountants registered with the Public Company Accounting Oversight Board, which firm also reviewed our interim financial statements for the nine months ended September 30, 2011.

We have included our financial statements in this prospectus in reliance on the reports of the above-named independent auditors, given upon their authority as experts in accounting and auditing.

DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

We are a Minnesota corporation and certain provisions of the Minnesota Statutes and our bylaws provide for indemnification of our officers and directors against liabilities that they may incur in such capacities. A summary of the circumstances in which indemnification is provided is discussed below, but this description is qualified in its entirety by reference to our bylaws and to the statutory provisions.

Section 302A.521, Subd. 2 of the Minnesota Statutes requires a corporation to indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, the person:

(1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;

(2) acted in good faith;

(3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;

(4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and

(5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

Section 302A.521 Subd. 2 further provides that the termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this subdivision.

In addition, Section 302A.521, Subd. 3, requires that if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the corporation, to payment or reimbursement by the corporation of reasonable expenses, including attorneys' fees and disbursements, incurred by the person in advance of the final disposition of the proceeding, (a) upon receipt by the corporation of a written affirmation by the person of a good faith belief that the criteria for indemnification set forth in Section 302A.521, Subd. 2 have been satisfied and a written undertaking by the person to repay all amounts so paid or reimbursed by the corporation, if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under this section. The written undertaking required by clause (a) is an unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

Section 302A.521 Subd. 4 provides that the articles of incorporation or bylaws of a corporation either may prohibit indemnification or advances of expenses otherwise required by Section 302A.521 or may impose conditions on indemnification or advances of expenses in addition to the conditions contained in Subd. 2 and 3 including, without limitation, monetary limits on indemnification or advances of expenses, if the prohibition or conditions apply equally to all persons or to all persons within a given class. A prohibition or limit on indemnification or advances may not apply to or affect the right of a person to indemnification or advances of expenses with respect to any acts or omissions of the person occurring prior to the effective date of a provision in the articles of incorporation or the date of adoption of a provision in the corporation's bylaws establishing the prohibition or limit on indemnification or advances.

Section 302A.521 Subd. 5 provides that Section 302A.521 does not require, or limit the ability of a corporation to reimburse expenses, including attorneys' fees and disbursements, incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding

Section 302A.521 Subd. 6 further provides that:

(a) all determinations whether indemnification of a person is required because the criteria set forth in Subd. 2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 shall be made:

(1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;

(2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;

(3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;

(4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or

(5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

(b) With respect to a person who is not, and was not at the time of the acts or omissions complained of in the proceedings, a director, officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the corporation, the determination whether indemnification of this person is required because the criteria set forth in Subd. 2 have been satisfied and whether this person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 may be made by an annually appointed committee of the board, having at least one member who is a director. The committee shall report at least annually to the board concerning its actions.

Section 302A.521 Subd 7 allows a corporation to purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the corporation would have been required to indemnify the person against the liability under the provisions of section 302A.521 of the Minnesota Statutes.

Section 302A.521 Subd. 8 requires a corporation that indemnifies or advances expenses to a person in accordance with Section 302A.521 in connection with a proceeding by or on behalf of the corporation to report to the shareholders in writing the amount of the indemnification or advance and to whom and on whose behalf it was paid not later than the next meeting of shareholders.

Section 302A.521 Subd. 9 provides that nothing in Section 302A.521 shall be construed to limit the power of the corporation to indemnify persons other than a director, officer, employee, or member of a committee of the board of the corporation by contract or otherwise.

Pursuant to our bylaws, we may indemnify our directors and executive officers to the fullest extent not prohibited by any applicable law; provided, however, that we may modify the extent of such indemnification by individual contracts with our directors and executive officers; and, provided, further, that we shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless: (i) such indemnification is expressly required to be made by law; (ii) the proceeding was authorized by our Board of Directors; or (iii) such indemnification is provided by the Company, in our sole discretion, pursuant to the powers vested in the Company under any applicable law. We shall have the power to indemnify our other officers, employees and other agents as set forth in any other applicable law. Our Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as our board of directors shall determine.

In addition, our bylaws provide that we will advance to any person who was or is a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the Company, prior to the final disposition of the proceeding, promptly following request therefore, all expenses incurred by any director or executive officer in connection with such proceeding; provided, however, that the advancement of expenses shall be made only upon delivery to the Company of an undertaking by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses. Notwithstanding the foregoing, unless otherwise determined, no advance shall be made by the Company to an officer of the Company (except by reason of the fact that such officer is or was a director of the Company in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made: (i) by a majority vote of directors who are not parties to the proceeding; (ii) by a committee of such directors designated by a majority vote of such directors; or (iii) if there are no such directors, or such directors so direct, by a written opinion from independent legal counsel, that the facts known to the decision making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company.

Our bylaws also provide that without the necessity of entering into an express contract, all rights to indemnification and advances to our directors and executive officers shall be deemed to be contractual rights and to be effective to the same extent and as if provided for in a contract between the Company and the director or executive officer. Any right to indemnification or advances granted to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if: (i) the claim for indemnification or advances is denied, in whole or in part; or (ii) no disposition of such claim is made within ninety (90) days of request therefore. The claimant in such enforcement action, if successful, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the Company shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under applicable law for the Company to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the Company (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the Company) for advances, the Company shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. A determination by the Company (including the board of directors, independent legal counsel or the stockholders) that indemnification of the claimant is proper because he has met the applicable standard of conduct or that the claimant has not met such applicable standard of conduct shall not be a defense to the action nor shall it create a presumption that claimant has not met the applicable standard of conduct.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers, and controlling persons pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

ADDITIONAL INFORMATION

We are subject to the reporting requirements of the Exchange Act. Reports filed with the SEC pursuant to the Exchange Act, including proxy statements, annual and quarterly reports, and other reports filed by the Company can be inspected and copied at the public reference facilities maintained by the SEC at the Headquarters Office, 100 F. Street N.E., Room 1580, Washington, D.C. 20549. The reader may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The reader can request copies of these documents upon payment of a duplicating fee by writing to the SEC. Our filings are also available on the SEC's internet site at http://www.sec.gov.

BioDrain Medical, Inc.
Index of Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash	$ 77,728	$ 9,383
Accounts receivable	19,277	-
Prepaid expense and other assets	30,649	8,126
Total Current Assets	127,654	17,509
Fixed assets, net	5,009	6,831
Intangibles, net	141,532	141,532
Total Assets	$ 274,195	$ 165,872
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Current portion of long term debt (See Note 7)	$ -	$ 10,267
Current portion of convertible debt, net of discounts of $32,513 and $0	683,987	56,000
Accounts payable	719,969	768,720
Accrued expenses	551,896	498,707
Total Current Liabilities	1,955,852	1,333,694
Long term debt and convertible debt, net of discounts of $39,807 and $109,310 (See Notes 6 and 7)	705,593	1,006,789
Liability for equity-linked financial instruments (See Note 9)	87,533	14,946
Stockholders Deficit:		
Common stock, $.01 par value, 200,000,000 authorized, 29,139,828 and 14,002,290 outstanding	291,398	140,023
Additional paid-in capital	6,134,829	5,052,497
Deficit accumulated during development stage	(8,901,010)	(7,382,077)
Total Shareholder' Deficit	(2,474,783)	(2,189,557)
Total Liabilities and Shareholders' Deficit	$ 274,195	$ 165,872

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Period From April 23, 2002 (Inception) To September 30,
	2011	2010	2011	2010	2011
Revenue	$ 20,264	$ -	$ 22,638	$ 288	$ 38,663
Cost of goods sold	11,161	-	12,981	140	20,121
Gross margin	9,103	-	9,657	148	18,542
General and administrative expense	428,843	381,053	1,014,667	1,531,669	6,917,559
Operations expense	135,358	55,649	402,479	165,308	1,580,351
Sales and marketing expense	60,989	36,415	149,247	177,065	805,016
Interest expense	61,033	33,873	176,118	107,580	612,851
Loss (gain) on valuation of equity-linked financial instruments	(23,006)	(348,880)	(213,921)	(1,025,294)	(996,225)
Total expense	663,217	158,110	1,528,590	956,328	8,919,552
Net income (loss) available to common shareholders	$ (654,114)	$ (158,110)	$ (1,518,933)	$ (956,180)	$ (8,901,010)
Loss per common share basic and diluted	$ (0.02)	$ (0.01)	$ (0.07)	$ (0.08)	$ (1.73)
Weighted average shares used in computation, basic and diluted	27,236,303	13,159,639	22,193,681	12,428,401	5,136,012

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' DEFICIT
PERIOD FROM APRIL 23, 2002 (INCEPTION)
TO SEPTEMBER 30, 2011

	Shares	Amount	Paid in Capital	Deficit	Total
Issuance of common stock 9/1/02, $.0167 (1)	598,549	$ 5,985	$ 4,015	$ -	$ 10,000
					-
Issuance of common 10/23/02, $1.67/share	2,993	30	4,970		5,000
Net loss				(51,057)	(51,057)
Balance 12/31/02	601,542	$ 6,015	$ 8,985	$ (51,057)	$ (36,057)
Issuance of common 2/12/03, $.0167 (2)	23,942	239	161		400
Issuance of common 6/11&12,$1.67 (3)	21,548	216	34,784		35,000
Net Loss				(90,461)	(90,461)
Balance 12/31/03	647,032	$ 6,470	$ 43,930	$ (141,518)	$ (91,118)
Issuance of common 5/25/04, $.0167 (4)	6,567	66	44		110
Net Loss				(90,353)	(90,353)
Balance 12/31/04	653,599	$ 6,536	$ 43,974	$ (231,871)	$ (181,361)
Issuance of common 12/14/05, $.0167 (5)	14,964	150	100		250
Vested stock options and warrants			2,793		2,793
Net Loss				(123,852)	(123,852)
Balance 12/31/05	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,170)
Issuance of common 5/16 & 8/8, $.0167 (6)	86,869	869	582		1,451
Issuance of common 10/19 & 23, $.0167 (7)	38,906	389	261		650
Issuance of common 12/01, $1.67 (8)	28,739	287	44,523		44,810
Vested stock options and warrants			13,644		13,644
Net Loss				(273,026)	(273,026)
Balance 12/31/06	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common 1/30/07 @ 1.67 (9)	599	6	994		1,000
Value of equity instruments issued with debt			132,938		132,938
Capital contributions resulting from waivers of debt			346,714		346,714
Vested stock options and warrants			73,907		73,907
Net loss				(752,415)	(752,415)
Balance 12/31/07	823,676	$ 8,237	$ 660,430	$ (1,381,164)	$ (712,497)
Issuance of common 6/11 to 9/30, $.35 (10)	4,552,862	45,528	1,547,974		1,593,502
Shares issued to finders, agents	2,012,690	20,127	(20,127)		-
Shares issued to pay direct legal fees	285,714	2,857	(2,857)		
Issuance of common due to antidilution provisions	205,899	2,059	(2,059)		-
Shares issued to pay investor relations services 6/23/08, $.35	250,000	2,500	85,000		87,500
Vested stock options and warrants			354,994		354,994
Capital contributions resulting from waivers of debt			129,684		129,684
Net loss				(1,762,628)	(1,762,628)
Balance 12/31/08	8,130,841	$ 81,308	$ 2,753,039	$ (3,143,792)	$ (309,445)
Cumulative effect of adoption of EITF 07-5			(486,564)	6,654	(479,910)
Vested stock options and warrants			111,835		111,835
Shares issued 3/20/09 to pay for fund raising	125,000	1,250	(1,250)		-
Shares issued under PMM in April 2009, $.50	700,000	7,000	343,000		350,000
Shares issued under PPM in May 2009, $.50	220,000	2,200	107,800		110,000
Shares issued under PPM in June 2009, $.50	50,000	500	24,500		25,000
Shares issued under PPM in August 2009, $.50	80,000	800	39,200		40,000
Shares issued under PPM in September 2009, $.50	150,000	1,500	73,500		75,000
Shares issued to directors, management and consultant in August 2009, $.50	797,810	7,978	390,927		398,905
Shares issued to finder in September 2009, $.50	100,000	1,000	49,000		50,000
Capital contributions resulting from waivers of debt			84,600		84,600
Value of equity-linked financial instruments issued in connection with PPMs			(222,296)		(222,296)
Value of equity instruments issued with debt			30,150		30,150
Shares issued to consultant for fund raising	30,000	300	(300)		-
Shares issued under PPM in November 2009, $.50	50,000	500	24,500		25,000
Shares issued upon conversion of debt and interest, $.27	935,446	9,354	247,100		256,454
Shares issued upon conversion of shareholder note, $.35	14,024	140	4,766		4,906
Net Loss				(2,892,230)	(2,892,230)
Balance 12/31/09	11,383,121	113,830	3,573,507	(6,029,368)	(2,342,030)

Shares issued in March 2010 under PPM, $.50	174,550	1,746	85,529		87,275
Shares issued to consultants for IR and consulting, $.50	374,090	3,741	183,304		187,045
Vested stock options and warrants			11,382		11,382
Value of equity instruments issued for consulting services			354,602		354,602
Value of equity-linked financial instruments issued in connection with PPM in first quarter			(25,553)		(25,553)
Shares issued in April 2010 under PPM, $.50	180,000	1,800	88,200		90,000
Shares issued in May 2010 to consultant, $.50	12,850	129	6,296		6,425
Shares issued in May 2010 to 2008 investors as a penalty for late registration of 4,552,862 shares, $.50	710,248	7,102	348,022		355,124
Value of equity instruments issued with debt in second quarter			96,613		96,613
Value of equity-linked financial instruments issued in connection with PPM in second quarter			(31,332)		(31,332)
Value of equity-linked financial instruments issued in connection with PPM in third quarter			(31,506)		(31,506)
Value of equity instruments issued with debt in third quarter			15,553		15,553
Shares issued in September 2010 under PPM, $.10	250,000	2,500	22,500		25,000
Shares issued to consultants in third quarter at $.22 per share	488,860	4,889	102,660		107,549
Shares issued, November 2010, upon exercise of warrants at $.135 per share	128,571	1,286	16,071		17,357
Shares issued to directors as compensation at $.15 per share	300,000	3,000	42,000		45,000
Value of equity instruments issued with debt in fourth quarter			7,308		7,308
Vested stock options in fourth quarter			161,107		161,107
Equity instruments issued to consultants in fourth quarter			26,234		26,234
Net Loss				(1,352,709)	(1,352,709)
Balance 12/31/2010	14,002,290	$ 140,023	$ 5,052,497	$ (7,382,077)	$ (2,189,557)
Value of equity instruments issued with debt in first quarter			47,908		47,908
Value of equity-linked financial instruments issued in connection with stock in first quarter			(265,815)		(265,815)
Shares issued in first quarter at $.075 per share under PPM	5,333,334	53,334	346,666		400,000
Shares issued in first quarter at $.085 per share under PPM	1,294,117	12,941	97,059		110,000
Shares issued in first quarter at $.09 per share under PPM	200,000	2,000	16,000		18,000
Shares issued in first quarter at $.10 per share under PPM	150,000	1,500	13,500		15,000
Equity instruments issued to consultants in first quarter			85,916		85,916
Stock issued upon conversion of debt in first quarter	416,010	4,160	15,840		20,000
Stock issued to pay interest on debt in second quarter	158,333	1,583	20,917		22,500
Shares issued in second quarter at $.085 per share under PPM	588,236	5,882	44,118		50,000
Shares issued in second quarter at $.07 per share under PPM	500,000	5,000	30,000		35,000
Stock issued upon conversion of debt and interest	940,737	9,407	22,593		32,000
Value of equity-linked financial instruments issued in connection with stock in second quarter			(20,695)		(20,695)
Stock options issued to management in second quarter			65,204		65,204
Stock options issued to management in third quarter			200,189		200,189
Stock issued to consultants in third quarter	822,842	8,228	46,772		55,000
Shares issued in third quarter at $.06 per share under PPM	2,916,666	29,167	145,833		175,000
Shares issued in third quarter at $.07 per share under PPM	571,429	5,715	34,285		40,000
Shares issued in third quarter at $.075 per share under PPM	583,334	5,833	29,167		35,000
Shares issued in third quarter at $.20 per share under PPM	562,500	5,625	106,875		112,500
Shares issued upon exercise of a management stock option	100,000	1,000	-		1,000
Net Loss				(1,518,933)	(1,518,933)
Balance 9/30/2011	29,139,828	$ 291,398	$ 6,134,829	$ (8,901,010)	$ (2,474,783)

(1) Founders shares, 1,000,000 pre-split
(2) 23,492 (40,000 pre-split) shares valued at $.0167 per share as compensation for loan guarantees by management
(3) Investment including 670 shares issued as a 10% finder's fee
(4) For payment of patent legal fees
(5) Compensation for loan guarantees by management
(6) For vendor contractual consideration
(7) Employment agreements
(8) Investment
(9) Conversion of convertible notes by management
(10) Investment, "October 2008 financing".

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,		April 23, 2002 (Inception) To September 30,
	2011	2010	2011
Cash flow from operating activities:			
Net loss	$ (1,518,933)	$ (956,180)	$ (8,901,010)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,822	1,822	8,212
Vested stock options and warrants	265,393	11,382	995,035
Equity instruments issued for management and consulting	142,813	655,621	1,406,072
Stock based registration payments	-	-	355,124
Conversion of accrued liabilities to capital	-	-	560,998
Amortization of debt discount	84,999	33,411	258,252
(Gain)Loss on valuation of equity-linked instruments	(213,921)	(1,025,294)	(996,225)
Changes in assets and liabilities:			
Accounts receivable	(19,277)	15,737	(19,277)
Prepaid expense and other	(22,523)	(6,692)	(30,649)
Notes payable to shareholders	-	-	(14,957)
Accounts payable	40,550	314,229	1,266,571
Accrued expenses	53,189	182,835	551,896
Net cash used in operating activities	(1,185,888)	(773,129)	(4,559,958)
Cash flow from investing activities:			
Purchase of fixed assets	-	-	(12,258)
Purchase of intangibles	-	-	(142,495)
Net cash used in investing activities	-	-	(154,753)
Cash flow from financing activities:			
Proceeds from long term and convertible debt	250,500	582,000	1,376,805
Repayment of convertible debt	-	(100,000)	(100,000)
Principal payments on long term debt	(10,267)	(10,677)	(296,531)
Restricted cash in escrow	-	103,333	-
Debt converted to common stock	-	-	174,000
Accrued interest converted to stock	22,500	-	109,860
Issuance of common stock	991,500	202,275	3,528,305
Net cash provided by financing activities	1,254,233	776,931	4,792,439
Net increase in cash	68,345	3,802	77,728
Cash at beginning of period	9,383	16,632	-
Cash at end of period	$ 77,728	$ 20,434	$ 77,728
Non cash transactions:			
Conversion of debt into common stock	$ 52,000	$ -	$ 52,000
Conversion of accounts payable to convertible debt	89,300	-	546,599
Total non cash transactions	$ 141,300	$ -	$ 598,599

See Notes to Condensed Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Amounts presented at and for the three months and nine months ended September 30, 2011 and September 30, 2010 are unaudited)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations

BioDrain Medical, Inc. (the "Company") was incorporated under the laws of the State of Minnesota in 2002. The Company is developing an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses from operations and has a shareholders' deficit. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management hired an investment banker in 2010 to raise an additional $3-$5 million in new equity. The banker was unable to raise the expected $500,000 by September 30, 2010 and the balance within 3 months, but the Company raised approximately $229,000 in equity and $605,000 in convertible debt in 2010 and $992,000 in equity and $251,000 in convertible debt in 2011 through alternative means. Although the Company's ability to raise all of this new capital is in substantial doubt it did receive approximately $2,075,000 through private placements of equity and convertible debt in 2010 and 2011, and the Company's April 1, 2009 510(k) clearance from the FDA to authorize the Company to market and sell its FMS products is being received very positively. The Company engaged a new investment banker in May 2011 to raise approximately $2 million and if the Company is successful in raising at least $2 million in new equity it will have sufficient capital to operate its business and execute its business plan for at least the next 12 months. The Company currently has a commitment for $1 million in convertible debt from an institutional investor that is contingent upon raising an equal amount of equity prior to closing. The Company is continuing its efforts to raise at least $1 million in equity so that it can take advantage of the $1 million commitment from the institutional investor. If the Company raises the additional capital by issuing additional equity securities, its existing shareholders will likely experience substantial dilution.

Recent Accounting Developments

In the first quarter 2011 we adopted new guidance on separating consideration in multiple-deliverable arrangements. The guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the consideration should be allocated among the separate units of accounting. The adoption of this guidance did not have a material impact on our financial statements.

We reviewed all other significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of our operations.

Valuation of Intangible Assets

We review identifiable intangible assets for impairment in accordance with ASC 360-*Property Plant and Equipment* ("ASC 360"), whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our intangible assets are currently solely the costs of obtaining trademarks and patents. Events or changes in circumstances that indicate the carrying amount may not be recoverable include, but are not limited to, a significant change in the medical device marketplace and a significant adverse change in the business climate in which we operate. If such events or changes in circumstances are present, the undiscounted cash flows method is used to determine whether the intangible asset is impaired. Cash flows would include the estimated terminal value of the asset and exclude any interest charges. If the carrying value of the asset exceeds the undiscounted cash flows over the estimated remaining life of the asset, the asset is considered impaired, and the impairment is measured by reducing the carrying value of the asset to its fair value using the discounted cash flows method. The discount rate utilized is based on management's best estimate of the related risks and return at the time the impairment assessment is made.

Our accounting estimates and assumptions bear various risks of change, including the length of the current recession facing the United States, the expansion of the slowdown in consumer spending in the U.S. medical markets despite the early expressed opinions of financial experts that the medical market would not be as affected as other markets and failure to gain acceptance in the medical market.

Accounting Policies and Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Presentation of Taxes Collected from Customers

Sales taxes are imposed on the Company’s sales to nonexempt customers. The Company collects the taxes from customers and remits the entire amounts to the governmental authorities. The Company’s accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

Shipping and Handling

Shipping and handling charges billed to customers are recorded as revenue. Shipping and handling costs are recorded within cost of goods sold on the statement of operations.

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses in the three months and nine months ended September 30, 2011 and September 30, 2010.

Research and Development

Research and development costs are charged to operations as incurred. There were no research and development expenses in the three months and nine months ended September 30, 2011 and September 30, 2010.

Revenue Recognition

The Company recognizes revenue in accordance with the SEC’s Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101), and ASC 605-*Revenue Recognition.*

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. The Company standard terms specify that shipment is FOB BioDrain and the Company will, therefore recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of the FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, the Company recognizes gross product revenue, which is the price it charges generally to its customers for a particular product. Under the Company's standard terms and conditions there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The customer's right of return is limited only to the Company's standard warranty whereby the Company replaces or repairs, at its option, and it would be very rare that the unit or significant quantities of cleaning solution kits may be returned. Additionally, since the Company buys both the FMS units and cleaning solution kits from "turnkey" suppliers the Company would have the right to replacements from the suppliers if this situation should occur.

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding. The Company has determined there will be no losses on balances outstanding at September 30, 2011.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful asset life by classification is as follows:

	Years
Computers and office equipment	3
Furniture and fixtures	5

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Intangible Assets

Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740- *Income Taxes("ASC 740")*. Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carry forwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Tax years subsequent to 2006 remain open to examination by federal and state tax authorities.

Patents and Intellectual Property

The Company, in June 2008, completed and executed an agreement to secure exclusive ownership of the patent from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on FMS (the Product) sales for the life of the patent. At the signing of the agreement, Mr. Ryan received $75,000 in exchange for the exclusive assignment of the patent. In addition, on June 30, 2009, Mr. Ryan, through his Mid-State Stainless, Inc. entity, was entitled to receive $100,000 as payment (currently recorded as an account payable with the Company) for past research and development activities. Should Mr. Ryan be utilized in the future for additional product development activities, he will be compensated at a rate of ninety five dollars ($95.00) per hour.

Mr. Ryan also received a warrant, with immediate vesting, to purchase 150,000 shares of the Company's common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013 and is assigned a value of $28,060 using a Black-Scholes formula and this amount was expensed as consulting expense in 2008 using a 5-year expected life, a 3.73% risk free interest rate, an expected 59% volatility and a zero dividend rate. Should there be a change in control of the Company (defined as greater than 50% of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity), Mr. Ryan will be owed a total of $2 million to be paid out over the life of the patent if the change in control occurs within 12 months of the first sale of the product; or $1 million to be paid out over the life of the patent if the change in control occurs between 12 and 24 months of the first sale of the product; or $500,000 to be paid out over the life of the patent if the change in control occurs between 24 and 36 months of the first sale of the product. There will be no additional payment if a change in control occurs more than 36 months after the first sale of the product.

Subsequent Events

The Company has evaluated subsequent events through the date of this filing. The Company does not believe there are subsequent events that require disclosure.

Interim Financial Statements

The Company has prepared the unaudited interim financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly the Company's financial position, the results of its operations and its cash flows for the interim periods. These interim financial statements should be read in conjunction with the annual financial statements and the notes thereto contained in the Form 10-K filed with the SEC on March 31, 2011. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS

The Company was formed April 23, 2002. Since inception through November 1, 2011, 30,427,328 shares of common stock have been issued between par value and $1.67. Operations since incorporation have primarily been devoted to raising capital, obtaining financing, development of the Company's product, and administrative services.

NOTE 3 – STOCKHOLDERS' DEFICIT, STOCK OPTIONS AND WARRANTS

In connection with the financing completed in October 2008, the Company has effected two reverse stock splits, one on June 6, 2008 and another on October 20, 2008. In accordance with SAB Topic 4C, all stock options and warrants and their related exercise prices are stated at their post-reverse stock split values.

The Company has an equity incentive plan, which allows issuance of incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the board of directors. Vesting requirements are determined by the board of directors when granted and currently range from immediate to three years. Options under this plan have terms ranging from three to ten years.

Accounting for share-based payment

The Company has adopted ASC 718- *Compensation-Stock Compensation* ("ASC 718"). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under SFAS 123 for pro forma disclosures, using a straight-line method. We elected the modified-prospective method under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. The Company uses the Black-Scholes option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions the Company uses in calculating the fair value of stock-based payment awards represent the Company's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based compensation expense could be materially different in the future.

Since the Company's common stock has no significant public trading history, and the Company has experienced no significant option exercises in its history, the Company is required to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from the Company's estimates. The Company compiled historical volatilities over a period of 2-7 years of 15 small-cap medical companies traded on major exchanges and 10 mid-range medical companies on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of ordinary options to employees the Company determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees the Company estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services the Company deems the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason the Company also uses the Black-Scholes-Merton option-pricing model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of the Company's common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

Since the Company has limited trading history in its stock and no first-hand experience with how its investors and consultants have acted in similar circumstances, the assumptions the Company uses in calculating the fair value of stock-based payment awards represent its best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the Company's equity-based consulting and interest expense could be materially different in the future.

Valuation and accounting for options and warrants

The Company determines the grant date fair value of options and warrants using a Black-Scholes-Merton option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants during 2008, the Company used a 2.0 to 4.5% risk-free interest rate, 0% dividend rate, 53-66% volatility and estimated term of 2.5 to 7.5 years. Values computed using these assumptions ranged from $.102 per share to $.336 per share. Warrants or options awarded for services rendered are expensed over the period of service (normally the vesting period) as compensation expense for employees or an appropriate consulting expense category for awards to consultants and directors. Warrants granted in connection with a common equity financing are included in shareholders' equity, provided that there is no re-pricing provision that requires they be treated as a liability (See Note 10) and warrants granted in connection with a debt financing are treated as a debt discount and amortized using the interest method as interest expense over the term of the debt. Warrants issued in connection with the $100,000 convertible debt that closed March 1, 2007 created a debt discount of $40,242 that is being amortized as additional interest over its 5-year term.

Warrants issued in connection with the $170,000 in convertible "bridge" debt that closed in July 2007 created a calculated debt discount of $92,700 that was fully expensed over its loan term that matured April 30, 2008. The Company issued $100,000 in convertible debt in October 2009 and issued a warrant, in connection with the debt, for 200,000 shares of common stock at $.65 per share. The Company determined that the warrant had an initial value of $30,150 that was treated as a debt discount and is being amortized as additional interest expense over the 24-month term of the note. The Company also issued $200,000 in convertible debt in June 2010 and issued a warrant, in connection with the debt, to purchase 1,111,112 shares at $.46 per share.

The Company determined that the value of the June 2010 warrant is $96,613.This value is treated as a debt discount and amortized as additional interest expense over the 22-month term of the note. The Company also issued $32,000 in convertible debt in September, 2010 and issued a warrant to purchase 320,000 shares at $.46 per share. The Company determined that this warrant has a value of $15,553 that was treated as a debt discount and amortized as additional interest expense over the 18 month term of the note. In January, 2011 the Company issued three convertible notes of $50,000 each and also issued warrants to purchase 1,595,239 common shares at $.20 per share. The value of the warrants was determined to be $47,908 and this amount is being treated as a debt discount and amortized as additional interest expense over the 24 month term of the notes.

The following summarizes transactions for stock options and warrants for the periods indicated:

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	1.67	92,776	1.25
Issued	5,984	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	1.67	121,278	1.04
Issued	1,243,292	0.20	5,075,204	0.45
Expired			(11,971)	3.76
Outstanding at December 31, 2008	1,291,174	0.26	5,184,511	0.45
Issued	205,000	0.37	2,188,302	0.65
Outstanding at December 31, 2009	1,496,174	0.27	7,372,813	0.49
Issued	2,210,000	0.17	3,435,662	0.34
Expired	(207,956)	0.43	(8,979)	1.67
Exercised			(128,571)	0.46
Outstanding at December 31, 2010	3,498,218	0.19	10,670,925	0.44
Issued	2,483,334	0.01	16,821,508	0.13
Expired	(65,985)	0.47	(2,009,560)	0.46
Exercised	(100,000)	0.01		
Outstanding at September 30, 2011	5,815,567	$ 0.11	25,482,873	$ 0.23

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008.

At September 30, 2011, 4,818,657 stock options are fully vested and currently exercisable with a weighted average exercise price of $0.14 and a weighted average remaining term of 8.02 years. There are 25,482,873 warrants that are fully vested and exercisable. Stock based compensation recognized in the nine months ended September 30, 2011 was $265,393 and was $667,000 in the nine months ended September 30, 2010.

The following summarizes the status of options and warrants outstanding at September 30, 2011:

	Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options:			
$	0.01	2,926,626	9.22
$	0.15	2,060,000	8.85
$	0.35	775,000	1.80
$	0.50	30,000	1.12
$	1.67	23,941	0.37
Total		5,815,567	
Warrants:			
$	0.01	200,000	4.19
$	0.02	71,826	2.70
$	0.075	4,657,745	2.77
$	0.10	2,328,572	2.18
$	0.12	500,000	2.59
$	0.13	631,429	2.03
$	0.15	5,333,334	2.41
$	0.16	500,000	2.52
$	0.17	1,294,118	2.51
$	0.18	200,000	2.36
$	0.20	2,445,239	2.30
$	0.25	562,500	2.95
$	0.35	998,597	0.74
$	0.46	4,000,035	1.18
$	0.65	1,729,550	0.91
$	1.67	29,928	0.24
Total		25,482,873	

Stock options and warrants expire on various dates from October 2011 to July 2021.

Under the terms of the Company's agreement with investors in the October 2008 financing, 1,920,000 shares of common stock were the maximum number of shares allocated to the Company's existing shareholders at the time of the offering (also referred to as the original shareholders or the "Founders"). Since the total of the Company's fully diluted shares of common stock was greater than 1,920,000 shares, in order for the Company to proceed with the offering, the board of directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000 shares. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for 1.33176963. Taken together, if only one reverse stock were performed, the number would have been a reverse stock split of 1-for 1.670705.

On June 6, 2008, the board of directors approved the first reverse stock split. The authorized number of common stock of 20,000,000 shares was proportionately divided by 1.2545 to 15,942,607.

On October 20, 2008, the board of directors (i) approved the second reverse stock split pursuant to which the authorized number of shares of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994 shares and (ii) approved a resolution to increase the number of authorized shares of the Company's common stock from 11,970,994 to 40,000,000, which was approved by the Company’s shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

The shareholders approved an increase in authorized shares to 80 million shares in an annual shareholder meeting on June 22, 2010 and approved an increase in authorized shares to 200 million shares in a special shareholder meeting on September 7, 2011.

Stock, Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of September 30, 2011 by year of grant:

Stock Options:

Year	Shares	Price
2006	17,956	$ 1.67
2007	5,985	1.67
2008	1,243,292	.01-.35
2009	105,000	.35
2010	2,060,000	.15
2011	2,383,334	.01
	5,815,567	$ .01-1.67

Warrants:

Year	Shares	Price
2006	65,841	$ .02-1.67
2007	28,502	.35
2008	2,943,058	.02-.46
2009	2,188,302	.13-.65
2010	3,435,662	.01-.65
2011	16,821,508	.075-.25
Total	25,482,873	$ .01-1.67

NOTE 4 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,		From April 23, 2002 (Inception) To September 30, 2011
	2011	2010	2011	2010	
Numerator					
Net Loss available in basic and diluted calculation	$ (654,114)	$ (158,110)	$ (1,518,933)	$ (956,180)	$ (8,901,010)
Denominator					
Weighted average common shares outstanding-basic	27,236,303	13,159,639	22,193,681	12,428,401	5,136,012
Effect of dilutive stock options and warrants (1)	-	-	-	-	-
Weighted average common shares outstanding-diluted	27,236,303	13,159,639	22,193,681	12,428,401	5,136,012
Loss per common share-basic and diluted	$ (0.02)	$ (0.01)	$ (0.07)	$ (0.08)	$ (1.73)

(1) The number of shares underlying options and warrants outstanding as of September 30, 2011 and September 30, 2010 are 31,298,440 and 12,027,714, respectively. The effect of the shares that would be issued upon exercise of such options and warrants has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 5 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

There is no income tax provision in the accompanying statement of operations due to the cumulative operating losses that indicate a 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

Federal and state income tax return operating loss carryovers, as of September 30, 2011, were approximately $8,300,000 and will begin to expire in 2017.

The valuation allowance has been recorded due to the uncertainty of realization of the benefits associated with the net operating losses. Future events and changes in circumstances could cause this valuation allowance to change.

The components of deferred income taxes at September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011 (Unaudited)	December 31, 2010
Deferred Tax Asset:		

Net Operating Loss	$ 1,933,000	$ 1,579,000
Other	48,000	56,000
Total Deferred Tax Asset	1,981,000	1,635,000
Less Valuation Allowance	1,981,000	1,635,000
Net Deferred Income Taxes	$ —	$ —

NOTE 6 - CONVERTIBLE DEBENTURE

The Company issued a convertible debenture to Andcor Companies, Inc. ("Andcor") with principal of $10,000 and interest at 10.25% that originally matured in 2007. The debenture is convertible into shares of the Company's common stock at the lower of $0.90 per share or the price per share at which the next equity financing agreement is completed, and is now re-set to $.35 per share. The convertible debenture has not yet been paid, but the maturity of the note was extended, in May 2010, to March 31, 2012.

NOTE 7 – LONG-TERM DEBT

Long-term debt is as follows:

	September 30, 2011	December 31, 2010
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (3.25% at December 31, 2010). The final payment under the note was made in September 2011. The note was personally guaranteed by former executives of the Company.	$ —	$ 10,267
Notes payable to two individuals, net of discounts of $3,353 and $9,390 with interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of common stock in the Company at $.35 per share.	96,647	90,610
Note payable issued on October 26, 2009 to the parents of one the Company's officers, net of a discount of $1,054 and $12,360 discount, with interest at 8% to March 31, 2012 and convertible into shares of common stock at $.35 per share.	98,946	87,640
Notes payable issued to two individuals in January 2010. The notes bear interest at 8%, mature March 31, 2012 and are convertible into shares of common stock, at 50% of the weighted average closing bid price over any 10 consecutive days of trading.	100,000	100,000
Note payable issued on June 12, 2010 to the parents of one of the Company's officers, net of a discount of $28,106 and $67,629. The note bears interest at 12% to March 31, 2012, and is convertible into common stock at $.18 per share.	171,894	132,371
Note payable issued on August 2, 2010 to an institutional investor. The note bears interest at 8%, matured May 4, 2011 and was convertible into common stock at 50% of the average of the three lowest closing prices in any 10 day trading period. $20,000 was converted in the three months ended March 31, 2011 and $30,000, plus accrued interest, was converted in the three months ended June 30, 2011.	—	50,000
Note payable issued on June 14, 2011 to an institutional investor. The note bears interest at 8%, matures June 14, 2012 and is convertible into common stock at 55% of the average of the five lowest closing prices in any 10 day trading period.	63,000	—
Note payable issued on July 12, 2011 to an institutional investor. The note bears interest at 8%, matures April 16, 2012 and is convertible into common stock at 60% of the average of the five lowest closing prices in any 10 day trading period.	37,500	—
Note payable issued on September 16, 2010 to an institutional investor. The note bears interest at 10%, matures March 15, 2012 and is convertible into common stock at $.18 per share.	100,000	100,000
Note payable issued on December 23, 2010 to the parents of one of our officers, net of a discount of $4,489 and $7,229. The note bears interest at 12%, matures December 23, 2012 and is convertible into common stock at $.084 per share.	12,311	9,571
Note payable issued December 31, 2010 to a law firm that accepted this note in full payment of their past due legal fees. The Note bears interest at 6%, matures December 31, 2014 and is convertible into common stock at $.15 per share.	457,300	457,300
Note payable issued on December 23, 2010 to a private investor. The Note matured April 30, 2011, is due on demand, and bears interest at 10%.	6,000	6,000
Note payable issued on September 21, 2010 to the parents of one of our officers, net of a discount of $4,925 and $12,702. The note bears interest at 12%, matures December 23, 2012 and is convertible into common stock at $.18 per share.	27,075	19,298
Notes payable issued in January 2011 to three individuals, net of a debt discount of $30,393. The notes bear interest at 10%, have a 24 month term and are convertible into common stock at $0.084 to $0.10 per share.	119,607	—
Note payable issued January 1, 2011 to a law firm that accepted this note in full payment of their past due legal fees. The Note bears interest at 6%, matures December 31, 2014 and is convertible into common stock at $.15 per share.	89,300	—
Total	$ 1,379,580	$ 1,063,056
Less amount due within one year	673,987	66,267
Long-Term Debt	$ 705,593	$ $ 996,789

Cash payments for interest were $208 for the nine months ended September 30, 2011 and $799 for the nine months ended September 30, 2010.

Principal payments required during the 12 month periods ended September 30:

2012	$ 716,500
2013	$ 48,800
2014	$ 150,000
2015	$ 546,600

NOTE 8 – RENT OBLIGATION

The Company leases its principal office under a non-cancelable lease that extends five years. In addition to rent, the Company pays real estate taxes and repairs and maintenance on the leased property. Rent expense was $24,293 in the nine months ended September 30, 2011 and $24,187 in the nine months ended September 30, 2010.

The Company's rent obligation for the years 2011 to 2015 is as follows:

2011	$ 30,000

2012	$	31,000
2013	$	26,000
2014	$	0
2015	$	0

NOTE 9 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS

The Company adopted ASC 815- *Derivatives and Hedging* ("ASC 815") on January 1, 2009. ASC 815 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which was the Company's first quarter of 2009. Many of the warrants issued by the Company contain a strike price adjustment feature, which upon adoption of ASC 815, changed the classification (from equity to liability) and the related accounting for warrants with a $479,910 estimated fair value of as of January 1, 2009. An adjustment was made to remove $486,564 from paid-in capital (the cumulative values of the warrants on their grant dates), a positive adjustment of $6,654 was made to accumulated deficit, representing the gain on valuation from the grant date to January 1, 2009, and booked $479,910 as a liability. The warrants issued in 2011 do not contain a strike price adjustment feature and, therefore, are not treated as a liability.

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of $.46 per share, a stock price of $.35, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were revalued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from $.50 to $.22 per share in the underlying share price. The Company realized a slight increase in the liability for existing warrants during the first quarter of 2011 primarily due to a reduction in the spread between the exercise price and the market price of the underlying shares, but this was more than offset by a decrease in the liability for new warrants that were issued during the quarter as a result of a reduction in the underlying market price of the stock.

The inputs to the Black-Scholes model during 2011 and 2010 were as follows:

Stock price	$ .08 to $.50
Exercise price	$ .01 to $.65
Expected life	2.00 to 6.5 years
Expected volatility	54% to 68 %
Assumed dividend rate	- %
Risk free interest rate	.13% to 2.97 %

The original valuations, annual gain/(loss) and end of year valuations are shown below:

	Initial Value	2009 Gain (Loss)	2010 Gain(Loss)	YTD 2011 Gain(Loss)	Value at 9/30/2011
January 1, 2009 Adoption	$ 479,910	$ (390,368)	$ 868,772	1,506	$ 0
Warrants issued in quarter ended 6/30/2009	169,854	20,847	149,007	(10,498)	12,101
Warrants issued in quarter ended 9/30/2009	39,743	(738)	40,419	(2,902)	2,964
Warrants issued in quarter ended 12/31/2009	12,698	617	12.053	(1,068)	1,095
Subtotal	$ 702,205				
Warrants issued in quarter ended 3/31/2010	25,553		25,014	(7,115)	7,654
Warrants issued in quarter ended 6/30/2010	31,332		30,740	(7,677)	8,269
Warrants issued in quarter ended 9/30/2010	31,506		20,811	(44,834)	55,449
Warrants issued in quarter ended 3/31/2011	265,815			265,815	0
Warrants issued in quarter ended 6/30/2011	20,692			20,692	0
Total	$ 1,077,104	(369,642)	$ 1,145,292	$ 213,919	$ 87,533

NOTE 10 – RELATED PARTY

The Company entered into agreements, in 2008, with our Chairman of the Board, Lawrence Gadbaw, and in 2009 with board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw will also be paid the balance, if any, due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008, is payable at $2,000 per month, and $12,000 remains in accounts payable as of September 30, 2011. Mr. Morawetz will also receive a stock option for 75,000 shares at $.35 per share and Mr. Gadbaw will receive a stock option for 160,000 shares at $.35 per share upon the Company raising $3 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
BioDrain Medical, Inc.
Mendota Heights, MN

We have audited the accompanying balance sheets of BioDrain Medical, Inc. (a development stage company) as of December 31, 2010 and 2009 and the related statements of operations, stockholders' deficit and cash flows for the years then ended and for the period from April 23, 2002 (inception), to December 31, 2010. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioDrain Medical, Inc. (a development stage company) as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended and from April 23, 2002 (inception) to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 1 to the financial statements, the company has incurred losses since inception, has an accumulated deficit and has not received significant revenue from sales of products and services. These factors raise substantial doubt about its ability to continue as a going concern. Managements' plan in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Olsen Thielen & Co., Ltd.

St. Paul, Minnesota
March 31, 2011

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash	$ 9,383	$ 16,632
Accounts receivable	-	15,737
Prepaid expense and other assets	8,126	3,801
Restricted cash in escrow (See Note 4)		103,333
Total Current Assets	17,509	139,503
Fixed assets, net	6,831	9,260
Intangibles, net	141,532	141,532
Total Assets	$ 165,872	$ 290,295
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Current portion of long term debt (See Note 8)	$ 10,267	$ 13,620
Current portion of convertible debt (See Note 8)	56,000	50,000
Accounts payable	768,720	814,137
Shares due investors under registration payment arrangement	-	355,124
Accrued expenses	498,707	201,490
Total Current Liabilities	1,333,694	1,434,371
Long term debt and convertible debt, net of discounts of $109,310 and $44,873 (See Notes 7 and 8)	1,006,789	126,108
Liability for equity-linked financial instruments (See Note 10)	14,946	1,071,847
Stockholders' Deficit:		
Common stock, $.01 par value, 80,000,000 authorized, 14,002,290 and 11,383,211 outstanding	140,023	113,831
Additional paid-in capital	5,052,497	3,573,506
Deficit accumulated during development stage	(7,382,077)	(6,029,368)
Total Shareholder' Deficit	(2,189,557)	(2,342,031)
Total Liabilities and Shareholders' Deficit	$ 165,872	$ 290,295

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS

	Twelve Months Ended December 31,		Period From April 23, 2002 (Inception) To December 31,
	2010	2009	2010
Revenue	$ 288	$ 15,737	$ 16,025
Cost of goods sold	140	7,000	7,140
Gross margin	148	8,737	8,885
General and administrative expense	1,874,465	1,598,286	5,902,892
Operations expense	276,998	447,000	1,177,872
Sales and marketing expense	199,593	407,101	655,769
Interest expense	147,093	78,938	436,733
Loss (gain) on valuation of equity-linked financial instruments	(1,145,292)	369,642	(782,304)
Total expense	1,352,857	2,900,967	7,390,962
Net loss available to common shareholders	$ 1,352,709	$ 2,892,230	$ 7,382,077
Loss per common share basic and diluted	$ 0.11	$ 0.31	$ 2.05
Weighted average shares used in computation, basic and diluted	12,771,683	9,475,369	3,605,195

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF STOCKHOLDERS' DEFICIT
PERIOD FROM APRIL 23, 2002 (INCEPTION)
To December 31, 2010

	Shares	Amount	Paid in Capital	Deficit	Total
Issuance of common stock 9/1/02, $.0167 (1)	598,549	$ 5,985	$ 4,015	$ -	$ 10,000
					-
Issuance of common 10/23/02, $1.67/share	2,993	30	4,970		5,000
Net loss				(51,057)	(51,057)
Balance 12/31/02	601,542	$ 6,015	$ 8,985	$ (51,057)	$ (36,057)
Issuance of common 2/12/03, $.0167 (2)	23,942	239	161		400
Issuance of common 6/11&12,$1.67 (3)	21,548	216	34,784		35,000
Net Loss				(90,461)	(90,461)
Balance 12/31/03	647,032	$ 6,470	$ 43,930	$ (141,518)	$ (91,118)
Issuance of common 5/25/04, $.0167 (4)	6,567	66	44		110
Net Loss				(90,353)	(90,353)
Balance 12/31/04	653,599	$ 6,536	$ 43,974	$ (231,871)	$ (181,361)
Issuance of common 12/14/05, $.0167 (5)	14,964	150	100		250
Vested stock options and warrants			2,793		2,793
Net Loss				(123,852)	(123,852)
Balance 12/31/05	668,563	$ 6,686	$ 46,867	$ (355,723)	$ (302,170)
Issuance of common 5/16 & 8/8, $.0167 (6)	86,869	869	582		1,451
Issuance of common 10/19 & 23, $.0167 (7)	38,906	389	261		650
Issuance of common 12/01, $1.67 (8)	28,739	287	44,523		44,810
Vested stock options and warrants			13,644		13,644
Net Loss				(273,026)	(273,026)
Balance 12/31/06	823,077	$ 8,231	$ 105,877	$ (628,749)	$ (514,641)
Issuance of common 1/30/07 @ 1.67 (9)	599	6	994		1,000
Value of equity instruments issued with debt			132,938		132,938
Capital contributions resulting from waivers of debt			346,714		346,714
Vested stock options and warrants			73,907		73,907
Net loss				(752,415)	(752,415)
Balance 12/31/07	823,676	$ 8,237	$ 660,430	$ (1,381,164)	$ (712,497)
Issuance of common 6/11 to 9/30, $.35 (10)	4,552,862	45,528	1,547,974		1,593,502
Shares issued to finders, agents	2,012,690	20,127	(20,127)		-
Shares issued to pay direct legal fees	285,714	2,857	(2,857)		
Issuance of common due to antidilution provisions	205,899	2,059	(2,059)		-
Shares issued to pay investor relationsservices 6/23/08, $.35	250,000	2,500	85,000		87,500
Vested stock options and warrants			354,994		354,994
Capital contributions resulting from waivers of debt			129,684		129,684
Net loss				(1,762,628)	(1,762,628)
Balance 12/31/08	8,130,841	$ 81,308	$ 2,753,039	$ (3,143,792)	$ (309,445)
Cumulative effect of adoption of EITF 07-5			(486,564)	6,654	(479,910)
Vested stock options and warrants			111,835		111,835
Shares issued 3/20/09 to pay for fund raising	125,000	1,250	(1,250)		-
Shares issued under PMM in April 2009, $.50	700,000	7,000	343,000		350,000
Shares issued under PPM in May 2009, $.50	220,000	2,200	107,800		110,000
Shares issued under PPM in June 2009, $.50	50,000	500	24,500		25,000
Shares issued under PPM in August 2009, $.50	80,000	800	39,200		40,000
Shares issued under PPM in September 2009, $.50	150,000	1,500	73,500		75,000
Shares issued to directors, management and consultant in August 2009, $.50	797,810	7,978	390,927		398,905
Shares issued to finder in September 2009, $.50	100,000	1,000	49,000		50,000
Capital contributions resulting from waivers of debt			84,600		84,600
Value of equity-linked financial instruments issued in connection with PPMs			(222,296)		(222,296)
Value of equity instruments issued with debt			30,150		30,150
Shares issued to consultant for fund raising	30,000	300	(300)		-
Shares issued under PPM in November 2009, $.50	50,000	500	24,500		25,000
Shares issued upon conversion of debt and interest, $.27	935,446	9,354	247,100		256,454
Shares issued upon conversion of shareholder note, $.35	14,024	140	4,766		4,906
Net Loss				(2,892,230)	(2,892,230)
Balance 12/31/09	11,383,121	$ 113,830	$ 3,573,507	$ (6,029,368)	$ (2,342,030)

Shares issued in March 2010 under PPM, $.50	174,550	1,746	85,529		87,275
Shares issued to consultants for IR and consulting, $.50	374,090	3,741	183,304		187,045
Value of equity instruments issued for consulting services			354,602		354,602
Value of equity-linked financial instruments issued in connection with PPM in first quarter			(25,553)		(25,553)
Shares issued in April 2010 under PPM, $.50	180,000	1,800	88,200		90,000
Shares issued in May 2010 to consultant, $.50	12,850	129	6,296		6,425
Shares issued in May 2010 to 2008 investors as a penalty for late registration of 4,552,862 shares, $.50	710,248	7,102	348,022		355,124
Value of equity instruments issued with debt			119,474		119,474
Value of equity-linked financial instruments issued in connection with PPM in second quarter			(31,332)		(31,332)
Value of equity-linked financial instruments issued in connection with PPM in third quarter			(31,506)		(31,506)
Shares issued in September 2010 under PPM, $.10	250,000	2,500	22,500		25,000
Shares issued to consultants in third quarter at $.22 per share	488,860	4,889	102,660		107,549
Shares issued, November 2010, upon exercise of warrants at $.135 per share	128,571	$ 1,286	16,071		17,357
Shares issued to directors as compensation at $.15 per share	300,000	$ 3,000	42,000		45,000
Vested stock options			172,989		172,989
Equity instruments issued to consultants in fourth quarter			26,234		26,234
Net Loss				(1,352,709)	(1,352,709)
Balance 12/31/2010	14,002,290	$ 140,023	$ 5,052,497	$ (7,382,077)	$ (2,189,557)

(1) Founders shares, 1,000,000 pre-split
(2) 23,492 (40,000 pre-split) shares valued at $.0167 per share as compensation for loan guarantees by management
(3) Investment including 670 shares issued as a 10% finder's fee
(4) For payment of patent legal fees
(5) Compensation for loan guarantees by management
(6) For vendor contractual consideration
(7) Employment agreements
(8) Investment
(9) Conversion of convertible notes by management
(10) Investment, "October 2008 financing".

See Notes to Financial Statements

BIODRAIN MEDICAL, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS

	Twelve Months Ended December 31,		April 23, 2002 (Inception) To December 31,
	2010	2009	2010
Cash flow from operating activities:			
Net loss	$ (1,352,709)	$ (2,892,230)	$ (7,382,077)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,429	3,042	6,390
Vested stock options and warrants	172,489	111,835	729,642
Equity instruments issued for management and consulting	726,854	448,905	1,263,259
Stock based registration payments	-	355,124	355,124
Conversion of accrued liabilities to capital	-	84,600	560,998
Amortization of debt discount	55,037	11,435	173,253
(Gain)Loss on valuation of equity-linked instruments	(1,145,292)	369,642	(782,304)
Changes in assets and liabilities:			
Accounts receivable	15,737	(15,737)	-
Prepaid expense and other	(4,325)	4,173	(8,126)
Notes payable to shareholders	-	(4,000)	(14,957)
Accounts payable	411,883	316,987	1,226,021
Accrued expenses	297,216	(103,761)	498,707
Net cash used in operating activities:	(820,680)	(1,309,985)	(3,374,070)
Cash flow from investing activities:			
Purchase of fixed assets	-	-	(12,258)
Purchase of intangibles	-	-	(142,495)
Net cash used in investing activities	-	-	(154,753)
Cash flow from financing activities:			
Proceeds from long term and convertible debt	604,800	100,000	1,126,305
Repayment of convertible debt	(100,000)	(170,000)	(100,000)
Principal payments on long term debt	(14,334)	(13,581)	(286,264)
Restricted cash in escrow	103,333	60,000	-
Debt converted to common stock	-	174,000	174,000
Accrued interest converted to stock	-	87,360	87,360
Issuance of common stock	219,632	625,000	2,536,805
Net cash provided by (used in) financing activities	813,431	862,779	3,538,206
Net increase (decrease) in cash	(7,249)	(447,206)	9,383
Cash at beginning of period	16,632	463,838	-
Cash at end of period	$ 9,383	$ 16,632	$ 9,383
Non cash transactions:			
Conversion of accounts payable to convertible debt	$ 457,299	$ 0	$ 457,299

See Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Continuance of Operations
BioDrain Medical, Inc. was incorporated under the laws of the State of Minnesota in 2002. The Company is developing an environmentally safe system for the collection and disposal of infectious fluids that result from surgical procedures and post-operative care.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The company has suffered recurring losses from operations and has a stockholders' deficit. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Although management has hired investment bankers to raise capital in the past, with little success, we continue to work with a number of consultants and advisors to raise up to $3 million by the end of 2011. Although our ability to raise this new capital is in substantial doubt we received $825,000 and $725,000, respectively, through private placements of equity and convertible debt in 2010 and 2009, and our April 1, 2009 510(k) clearance from the FDA to authorize us to market and sell our FMS products is being received very positively. If the Company is successful in raising at least $3 million in new equity we will have sufficient capital to operate our business and execute our business plan for at least the next 12 months. If the Company raises the additional capital by issuing additional equity securities its shareholders could experience substantial dilution.

Recent Accounting Developments

Issued in January 2010, ASU Update 2010-06, Fair Value Measures and Disclosures, provides amendments to Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements, and (4) the transfers between levels 1, 2, and 3. ASC Update 2010-06 is effective for fiscal years beginning after December 15, 2010. We do not expect adoption of ASU Update 2010-06 to have a material effect to our financial statements or our disclosures.

Issued in October 2009, ASU Update 2009-13, Revenue Recognition Topic 605 - Multiple-Deliverable Revenue Arrangements provides guidance for separating consideration in multiple-deliverable arrangements. ASC Number 2009-13 is effective for fiscal years beginning on or after June 15, 2010. We do not expect adoption of ASU Update 2009-13 to have a material effect on our financial statements.

We reviewed all other significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of our operations.

Accounting Policies and Estimates
The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Presentation of Taxes Collected from Customers

Sales taxes are imposed on the Company's sales to nonexempt customers. The Company collects the taxes from customers and remits the entire amounts to the governmental authorities. The Company's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

Shipping and Handling

Shipping and handling charges billed to customers are recorded as revenue. Shipping and handling costs are recorded within cost of goods sold on the statement of operations.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were approximately $0 for 2010 and $1,600 in 2009.

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs were approximately $10,000 and $71,000 in 2010 and 2009, respectively.

Revenue Recognition We recognize revenue in accordance with the SEC's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101), and ASC 605 *Revenue Recognition*.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. Our standard terms specify that shipment is FOB BioDrain and we will, therefore recognize revenue upon shipment in most cases. This revenue recognition policy applies to shipments of our FMS units as well as shipments of cleaning solution kits. When these conditions are satisfied, we recognize gross product revenue, which is the price we charge generally to our customers for a particular product. Under our standard terms and conditions there is no provision for installation or acceptance of the product to take place prior to the obligation of the customer. The Customer's right of return is limited only to our standard warranty whereby we replace or repair, at our option, and it would be very rare that the unit or significant quantities of cleaning solution kits may be returned. Additionally, since we buy both the FMS units and cleaning solution kits from "turnkey" suppliers we would have the right to replacements from the suppliers if this situation should occur.

Receivables

Receivables are reported at the amount the Company expects to collect on balances outstanding at year end. The Company has concluded there will be no losses on balances outstanding at year end.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Estimated useful asset life by classification is as follows:

	Years
Computers and office equipment	3
Furniture and fixtures	5

Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Intangible Assets
Intangible assets consist of patent costs. These assets are not subject to amortization until the property patented is in production. The assets are reviewed for impairment annually, and impairment losses, if any, are charged to operations when identified. No impairment losses have been identified by management.

Income Taxes
The Company accounts for income taxes in accordance with ASC 740- *Income Taxes("ASC 740")*. Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and net operating loss and credit carry forwards using enacted tax rates in effect for the year in which the differences are expected to impact taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company reviews income tax positions expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on technical merits of the positions. The Company has identified no income tax uncertainties.

Tax years subsequent to 2006 remain open to examination by federal and state tax authorities.

Patents and Intellectual Property
The Company, in June 2008, completed and executed an agreement to secure exclusive ownership of the patent- from an inventor, Marshall Ryan. Mr. Ryan received a combination of cash and warrants, and he will receive a 4% royalty on FMS (the Product) sales for the life of the patent. At the signing of the agreement, Mr. Ryan received $75,000 in exchange for the exclusive assignment of the patent. In addition, on June 30, 2009, Mr. Ryan, through his Mid-State Stainless, Inc. entity, was entitled to receive $100,000 as payment (currently recorded as an account payable with the Company) for past research and development activities. Should Mr. Ryan be utilized in the future for additional product development activities, he will be compensated at a rate of ninety five dollars ($95.00) per hour.

Mr. Ryan also received a warrant, with immediate vesting, to purchase 150,000 shares of our common stock at a price of $.35 per share. The warrant has a term of five years, ending on June 30, 2013 and is assigned a value of $28,060 using a Black-Scholes formula and this amount was expensed as consulting expense in 2008 using a 5 year expected life, a 3.73% risk free interest rate, an expected 59% volatility and a zero dividend rate. Should there be a change in control of the Company (defined as greater than 50% of the Company's outstanding stock or substantially all of its assets being transferred to one independent person or entity), Mr. Ryan will be owed a total of $2 million to be paid out over the life of the patent if the change in control occurs within 12 months of the first sale of the Product; or $1 million to be paid out over the life of the patent if the change in control occurs between 12 and 24 months of the first sale of the Product; or $500,000 to be paid out over the life of the patent if the change in control occurs between 24 and 36 months of the first sale of the Product. There will be no additional payment if a change in control occurs more than 36 months after the first sale of the Product.

Subsequent Events
The Company has evaluated any subsequent events through the date of this filing. The Company has raised $150,000 through the issuance of convertible debt and warrants and has also raised $543,000 through the sale of stock Units, including common stock and warrants, during the three months ended March 31, 2011. The Company does not believe there are other subsequent events that require disclosure.

NOTE 2 – DEVELOPMENT STAGE OPERATIONS
The Company was formed April 23, 2002. Since inception to December 31, 2010, 14,002,290 shares have been issued between par value and $1.67. Operations since incorporation have been devoted to raising capital, obtaining financing, development of the Company's product, sales and marketing and administrative services.

NOTE 3 – STOCKHOLDERS' DEFICIT, STOCK OPTIONS AND WARRANTS
In connection with the financing completed in October 2008, the Company has effected two reverse stock splits, one on June 6, 2008 and another on October 20, 2008. In accordance with SAB Topic 4C, all stock options and warrants and their related exercise prices are stated at their post-reverse stock split values.

The Company has an equity incentive plan, which allows issuance of incentive and non-qualified stock options to employees, directors and consultants of the Company, where permitted under the plan. The exercise price for each stock option is determined by the board of directors. Vesting requirements are determined by the board of directors when granted and currently range from immediate to three years. Options under this plan have terms ranging from three to ten years. The Company will issue shares upon exercise of options, if any, and payment for the shares.

Accounting for share-based payment
Effective January 1, 2006, we adopted ASC 718- *Compensation-Stock Compensation* ("ASC 718). Under ASC 718 stock-based employee compensation cost is recognized using the fair value based method for all new awards granted after January 1, 2006 and unvested awards outstanding at January 1, 2006. Compensation costs for unvested stock options and non-vested awards that were outstanding at January 1, 2006, are being recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under SFAS 123 for pro forma disclosures, using a straight-line method. We elected the modified-prospective method in under which prior periods are not retroactively restated.

ASC 718 requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model or other acceptable means. We use the option valuation model which requires the input of significant assumptions including an estimate of the average period of time employees will retain vested stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based compensation expense could be materially different in the future.

Since our company stock has no significant public trading history, and we have experienced limited option exercises in our history, we were required to take an alternative approach to estimating future volatility and estimated life and the future results could vary significantly from our estimates. We compiled historical volatilities over a period of 2-7 years of 15 small-cap medical companies traded on major exchanges and 10 medical companies in the middle of the size range on the OTC Bulletin Board and combined the results using a weighted average approach. In the case of ordinary options to employees we determined the expected life to be the midpoint between the vesting term and the legal term. In the case of options or warrants granted to non-employees we estimated the life to be the legal term unless there was a compelling reason to make it shorter.

When an option or warrant is granted in place of cash compensation for services we deem the value of the service rendered to be the value of the option or warrant. In most cases, however, an option or warrant is granted in addition to other forms of compensation and its separate value is difficult to determine without utilizing an option pricing model. For that reason we also use the option valuation model to value options and warrants granted to non-employees, which requires the input of significant assumptions including an estimate of the average period the investors or consultants will retain vested stock options and warrants before exercising them, the estimated volatility of our common stock price over the expected term, the number of options and warrants that will ultimately be forfeited before completing vesting requirements, the expected dividend rate and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based consulting and/or compensation and, consequently, the related expense recognized.

Since we have no significant trading history in our stock and no first-hand experience with how these investors and consultants have acted in similar circumstances, the assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our equity-based consulting and interest expense could be materially different in the future.

Valuation and accounting for options and warrants
The Company determines the grant date fair value of options and warrants using a option valuation model based upon assumptions regarding risk-free interest rate, expected dividend rate, volatility and estimated term. For grants during 2008 we used a 2.0 to 4.5% risk-free interest rate, 0% dividend rate, 53-66% volatility and estimated term of 2.5 to 7.5 years. Values computed using these assumptions ranged from $.102 per share to $.336 per share. Warrants or options awarded for services rendered are expensed over the period of service (normally the vesting period) as compensation expense for employees or an appropriate consulting expense category for awards to consultants and directors. Warrants granted in connection with a common equity financing are included in stockholders' equity, provided that there is no re-pricing provision that requires they be treated as a liability (See Note 10) and warrants granted in connections with a debt financing are treated as a debt discount and amortized using the interest method as interest expense over the term of the debt. Warrants issued in connection with the $100,000 convertible debt, closed March 1, 2007, created a debt discount of $40,242 that is being amortized as additional interest over its 5 year term. Warrants issued in connection with the $170,000 in convertible "bridge" debt, closed in July 2007, created a calculated debt discount of $92,700 that was fully expensed over its loan term that matured April 30, 2008. The Company issued $100,000 in convertible debt in October 2009 and issued a warrant, in connection with the debt, for 200,000 shares at $.65 per share. The Company determined that the warrant had an initial value of $30,150 that is treated as a debt discount and amortized as additional interest expense over the 24 month term of the note. The value was determined using the Black-Scholes-Merton option valuation model with a 3 year expected life, a 54% expected volatility, a zero dividend rate and a 2.53% risk free interest rate. The company issued $598,800 in convertible notes in 2010 including $248,800 that also included warrants to buy common shares at a fixed price of $.20 to $.46 per share. The notes had an initial term of 18 months to 24 months and the company determined that the value of the warrants on the date of grant was approximately $138,000 using the Black-Scholes option valuation model. The value was determined using an expected warrant life of 3 years, a risk-free interest rate of .68% to 1.1% and a zero dividend rate. Approximately $32,000 was amortized as interest expense in 2010 related to these debt discounts.

The following summarizes transactions for stock options and warrants for the periods indicated:

	Stock Options (1)		Warrants (1)	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at December 31, 2005	17,956	$ 1.67	20,950	$ 2.62
Issued	23,942	1.67	71,826	0.85
Outstanding at December 31, 2006	41,898	1.67	92,776	1.25
Issued	5,984	1.67	28,502	0.35
Outstanding at December 31, 2007	47,882	1.67	121,278	1.04
Issued	1,243,292	0.20	5,075,204	0.45
Expired			(11,971)	3.76
Outstanding at December 31, 2008	1,291,174	0.26	5,184,511	0.45
Issued	205,000	0.37	2,188,302	0.65
Outstanding at December 31, 2009	1,496,174	0.27	7,372,813	0.49
Issued	2,210,000	0.17	3,435,662	0.34
Expired	(207,956)	0.43	(8,979)	1.67
Exercised			(128,571)	0.46
Outstanding at December 31, 2010	3,498,218	$ 0.19	10,670,925	$ 0.44

(1) Adjusted for the reverse stock splits in total at June 6, 2008 and October 20, 2008.

At December 31, 2010, 3,498,218 stock options are fully vested and currently exercisable with a weighted average exercise price of $.19 and a weighted average remaining term of 7.38 years. There are 10,670,925 warrants that are fully vested and exercisable. Stock based compensation recognized in the year ended December 31, 2010 was $172,489 and for the year ended December 31, 2009 was $111,835.

The following summarizes the status of options and warrants outstanding at December 31, 2010:

	Range of Exercise Prices	Shares	Weighted Average Remaining Life
Options			
$	0.01	543,292	7.43
$	0.15	2,060,000	9.60
$	0.35	835,000	2.59
$	0.50	30,000	1.37
$	1.67	29,926	1.02
Total		3,498,218	
Warrants			
$	0.01	200,000	4.94
$	0.02	71,826	3.45
$	0.10	800,000	2.17
$	0.17	250,000	4.68
$	0.20	200,000	2.98
$	0.35	998,597	1.49
$	0.46	6,275,039	1.05
$	0.65	1,839,550	1.67
$	1.67	35,913	0.95
Total		10,670,925	

Stock options and warrants expire on various dates from June 2011 to November 2020.

Under terms of our agreement with investors in the October 2008 financing 1,920,000 shares of common stock were the maximum number of shares allocated to our existing shareholders at the time of the offering (also referred to as the original shareholders or the Founders). Since the total of our fully diluted shares of common stock was greater than 1,920,000, in order for us to proceed with the offering, our board of directors approved a reverse stock split of 1-for-1.2545. After this split was approved, additional options and warrants were identified, requiring a second reverse stock split in order to reach the 1,920,000. The second reverse stock split on the reduced 1-for-1.2545 balance was determined to be 1-for-1.33176963. Taken together, if only one reverse stock were performed, the number would have been a reverse stock split of 1-for 1.670705.

On June 6, 2008, the Board of Directors approved the first reverse stock split. The authorized number of common stock of 20,000,000 was proportionately divided by 1.2545 to 15,942,607.

On October 20, 2008, the Board of Directors (i) approved the second reverse stock split pursuant to which the authorized number of shares of common stock of 15,942,607 was proportionately divided by 1.33177 to 11,970,994 and (ii) approved a resolution to increase the number of authorized shares of our common stock from 11,970,994 to 40,000,000, which was approved by the Company's shareholders holding a majority of the shares entitled to vote thereon at a special meeting of shareholders held on December 3, 2008.

Stock, Stock Options and Warrants Granted by the Company

The following table is the listing of stock options and warrants as of December 31, 2010 by year of grant:

Stock Options:

Year	Shares		Price
2006	23,941	$	1.67
2007	5,985		.35-1.67
2008	1,243,292		.01-.35
2009	165,000		.35-.50
2010	2,060,000		.15
	3,498,218	$	.01-1.67

Warrants:

Year	Shares		Price
2006	71,826	$	.02-1.67
2007	28,502		.35
2008	4,946,633		.02-.46
2009	2,188,302		.35-.65
2010	3,435,662		.01-.65
Total	10,670,925	$	.01-1.67

NOTE 4- RESTRICTED CASH IN ESCROW

Under the terms of the escrow agreement established in connection with the October 2008 financing, certain amounts were to be withheld to pay legal, accounting and placement agent fees as well as to pay for investor relations activities that commenced upon receiving an effective registration of the Company's stock and an initial quotation on the OTC Bulletin Board.

During the fourth quarter of 2009, $60,000 was released to pay for investor relations activities. Additionally, $103,333 was released in 2010 to pay for investor relations and accounting expenses. There is no balance in the escrow account as of December 31, 2010.

NOTE 5 - LOSS PER SHARE

The following table presents the shares used in the basic and diluted loss per common share computations:

	Twelve Months Ended December 31, 2010	2009	From April 23, 2002 (Inception) To December 31, 2010
Numerator			
Net Loss available in basic and diluted calculation	$ 1,352,709	$ 2,892,230	$ 7,382,077
Denominator			
Weighted average common shares outstanding-basic	12,771,683	9,475,369	3,605,195
Effect of dilutive stock options and warrants (1)	-	-	-
Weighted average common shares outstanding-diluted	12,771,683	9,475,369	3,605,195
Loss per common share-basic and diluted	$ 0.11	$ 0.31	$ 2.05

(1) The number of options and warrants outstanding as of December 31, 2010 and December 31, 2009 are 14,169,143 and 8,868,987 respectively. The effect of the shares that would be issued upon exercise has been excluded from the calculation of diluted loss per share because those shares are anti-dilutive.

NOTE 6 – INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

There is no income tax provision in the accompanying statement of operations due to the cumulative operating losses that indicate a 100% valuation allowance for the deferred tax assets and state income taxes is appropriate.

Federal and state income tax return operating loss carryovers as of December 31, 2010, were approximately 6,768,000 and will begin to expire in 2017.

The valuation allowance has been recorded due to the uncertainty of realization of the benefits associated with the net operating losses. Future events and changes in circumstances could cause this valuation allowance to change.

The components of deferred income taxes at December, 2010 and December 31, 2009 are as follows:

	December 31, 2010	December 31, 2009
Deferred Tax Asset:		
Net Operating Loss	$ 1,579,000	$ 1,278,000
Other	56,000	0
Total Deferred Tax Asset	1,635,000	1,278,000
Less Valuation Allowance	1,635,000	1,278,000
Net Deferred Income Taxes	$ —	$ —

NOTE 7 –NOTES PAYABLE

The Company issued a convertible debenture to Andcor Companies, Inc. (“Andcor”) with principal of $10,000 and interest at 10.25% that originally matured in 2007. The debenture is convertible into shares of the Company’s common stock at the lower of $0.90 per share or the price per share at which the next equity financing agreement is completed, and is now re-set to $.35 per share. The convertible debenture has not yet been paid, but the maturity of the note was extended, in May 2010, to March 31, 2012.

NOTE 8 – LONG-TERM AND CONVERTIBLE DEBT

Long-term debt is as follows:

	December 31, 2010	December 31, 2009
Note payable to bank in monthly installments of $1,275/including variable interest at 2% above the prevailing prime rate (3.25% at December 31, 2010) to August 2011 when the remaining balance is payable. The note is personally guaranteed by former executives of the Company.	10,267	24,601
Notes payable to two individuals, net of discounts of $9,390 and $17,438 with interest only payments at 12% to March 2012 when the remaining balance is payable. The notes are convertible into 285,715 shares of common stock in the Company at $.35 per share.	90,610	82,562
Note payable issued on October 26, 2009 to the parents of one the Company's officers, net of a discount of $12,360 and $27,435 discount, with interest at 8% to March 31, 2012 and convertible into shares of common stock at $.35 per share.	87,640	72,565
Notes payable issued to two individuals in January, 2010. The notes bear interest at 8%, mature March 31, 2012 and are convertible into shares of common stock, at 50% of the weighted average closing bid price over any 10 consecutive days of trading.	100,000	-
Note payable issued on June 12, 2010 to the parents of one of the Company's officers, net of a discount of $67,629. The note bears interest at 12% to March 31, 2012, and is convertible into common stock at $.18 per share.	132,371	-
Note payable issued on August 2, 2010 to an institutional investor. The note bears interest at 8%, matures May 4, 2011 and is convertible into common stock at 50% of the average of the three lowest closing prices in any 10 day trading period.	50,000	-
Note payable issued on September 16, 2010 to an institutional investor. The note bears interest at 10%, matures March 15, 2012 and is convertible into common stock at $.18 per share.	100,000	-
Note payable issued on December 23, 2010 to the parents of one of our officers, net of a discount of $7,229. The note bears interest at 12%, matures March 30, 2012 and is convertible into common stock at $.084 per share.	9,571	-
Note payable issued December 31, 2010 to a law firm that accepted this note in full payment of their past due legal fees. The Note bears interest at 6%, matures December 31, 2014 and is convertible into common stock at $.15 per share.	457,300	-
Note payable issued on December 23, 2010 to a private investor. The Note matures April 30, 2011 and bears interest at 10%.	6,000	-
Note payable issued on September 21, 2010 to the parents of one of our officers, net of a discount of $12,702. The note bears interest at 12%, matures March 30, 2012 and is convertible into common stock at $.18 per share.	19,298	-
Total	1,063,056	179,728
Less amount due within one year	66,267	63,620
Long-Term Debt	$ 996,789	$ 116,108

Cash payments for interest were $967 for the year ended December 31, 2010 and $1,718 for the year ended December 31, 2009.

Principal payments required during the years 2011 to 2015 are:

2011 -	$ 66,267
2012 -	$ 658,800
2013 -	$ 0
2014 -	$ 457,300
2015	$ 0

NOTE 9 – RENT OBLIGATION

The Company leases it principal office under a non-cancelable lease that extends 5 years. In addition to rent the Company also pays real estate taxes, repairs and maintenance on the leased property. Rent expense was $49,863 and $38,035 for 2010 and 2009, respectively.

The Company's rent obligation for the years 2011 to 2015 is as follows:

2011	30,000
2012	31,000
2013	26,000
2014	0
2015	0

NOTE 10 – LIABILITY FOR EQUITY-LINKED FINANCIAL INSTRUMENTS

The Company adopted ASC 815- *Derivatives and Hedging* ("ASC 815") on January 1, 2009. ASC 815 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. It is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which was the Company's first quarter of 2009. Most of the warrants issued by the Company contain a strike price adjustment feature, which upon adoption of ASC 815, changed the classification (from equity to liability) and the related accounting for warrants with a $479,910 estimated fair value of as of January 1, 2009. An adjustment was made to remove $486,564 from paid-in capital (the cumulative values of the warrants on their grant dates), a positive adjustment of $6,654 was made to accumulated deficit, representing the gain on valuation from the grant date to January 1, 2009, and booked $479,910 as a liability.

The January 1, 2009 valuation was computed using the Black-Scholes valuation model based upon a 2.5-year expected term, an expected volatility of 63%, an exercise price of $.46 per share, a stock price of $.35, a zero dividend rate and a 1.37% risk free interest rate. Subsequent to January 1, 2009 these warrants were revalued at the end of each quarter and a gain or loss was recorded based upon their increase or decrease in value during the quarter. Likewise, new warrants that were issued during 2009 and 2010 were valued, using the Black-Scholes valuation model on their date of grant and an entry was made to reduce paid-in capital and increase the liability for equity-linked financial instruments. These warrants were also re-valued at the end of each quarter based upon their expected life, the stock price, the exercise price, assumed dividend rate, expected volatility and risk free interest rate. A significant reduction in the liability was realized in 2010 primarily due to a reduction from $.50 to $.22 per share in the underlying share price.

The inputs to the Black-Scholes model during 2009 and 2010 were as follows:

Stock price	$ .22 to $.50
Exercise price	$ .17 to $.65
Expected life	2.00 to 6.5 years
Expected volatility	59% to 67%
Assumed dividend rate	-%
Risk free interest rate	.710% to 2.97%

The original valuations, annual gain/(loss) and end of year valuations are shown below:

	Initial Value	Annual Gain (Loss)	Value at 12/31/2009	YTD 2010 Gain	Value at 12/31/2010
January 1, 2009 Adoption	$ 479,910	$ (390,368)	$ 870,278	868,772	1,506
Warrants issued in quarter ended 6/30/2009	169,854	20,847	149,007	147,403	1,604
Warrants issued in quarter ended 9/30/2009	39,743	(738)	40,481	40,419	62
Warrants issued in quarter ended 12/31/2009	12,698	617	12,081	12,053	28
Subtotal	$ 702,205	$ (369,642)	$ 1,071,847		
Warrants issued in quarter ended 3/31/2010	25,553			25,014	539
Warrants issued in quarter ended 6/30/2010	31,332			30,740	592
Warrants issued in quarter ended 9/30/2010	31,506			20,811	10,615
Total	$ 790,866			$ 1,145,292	$ 14,946

NOTE 11 - RELATED PARTY

The Company entered into agreements, in 2008, with our Chairman of the Board Lawrence Gadbaw, and in 2009 with board member, Peter Morawetz, to pay Mr. Gadbaw $25,000 and Mr. Morawetz $30,000 upon the Company raising $3 million in new equity. Mr. Gadbaw will also be paid the balance, if any, due under his separation agreement from 2008. This amount was $46,000 upon signing the agreement in 2008, is payable at $2,000 per month, and $12,000 remains in accounts payable as of December 31, 2010. Mr. Morawetz will also receive a stock option for 75,000 shares at $.35 per share and Mr. Gadbaw will receive a stock option for 160,000 shares at $.35 per share upon the Company raising $3 million.

Prospectus dated_____, 2012

BIODRAIN MEDICAL, INC.

9,196,667 shares of Common Stock

Until __, 2012, all dealers that buy, sell, or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, payable by the registrant in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee.

Securities and Exchange Commission registration fee	$	266.93
Printing and engraving expenses	$	1,550.00
Blue Sky fees and expenses	$	0.00
Legal fees and expenses	$	14,000.00
Accounting fees and expenses	$	5,000.00
Miscellaneous	$	0.00
Total	$	20,816.93

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

We are a Minnesota corporation and certain provisions of the Minnesota Statutes and our bylaws provide for indemnification of our officers and directors against liabilities that they may incur in such capacities. A summary of the circumstances in which indemnification is provided is discussed below, but this description is qualified in its entirety by reference to our bylaws and to the statutory provisions.

Section 302A.521, Subd. 2 of the Minnesota Statutes requires a corporation to indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding, if, with respect to the acts or omissions of the person complained of in the proceeding, the person:

(1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions;

(2) acted in good faith;

(3) received no improper personal benefit and Section 302A.255, if applicable, has been satisfied;

(4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and

(5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the corporation or, in the case of performance by a director, officer or employee of the corporation involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the corporation. If the person's acts or omissions complained of in the proceeding relate to conduct as a director, officer, trustee, employee, or agent of an employee benefit plan, the conduct is not considered to be opposed to the best interests of the corporation if the person reasonably believed that the conduct was in the best interests of the participants or beneficiaries of the employee benefit plan.

Section 302A.521 Subd. 2 further provides that the termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent does not, of itself, establish that the person did not meet the criteria set forth in this subdivision.

In addition, Section 302A.521, Subd. 3, requires that if a person is made or threatened to be made a party to a proceeding, the person is entitled, upon written request to the corporation, to payment or reimbursement by the corporation of reasonable expenses, including attorneys' fees and disbursements, incurred by the person in advance of the final disposition of the proceeding, (a) upon receipt by the corporation of a written affirmation by the person of a good faith belief that the criteria for indemnification set forth in Section 302A.521, Subd. 2 have been satisfied and a written undertaking by the person to repay all amounts so paid or reimbursed by the corporation, if it is ultimately determined that the criteria for indemnification have not been satisfied, and (b) after a determination that the facts then known to those making the determination would not preclude indemnification under this section. The written undertaking required by clause (a) is an unlimited general obligation of the person making it, but need not be secured and shall be accepted without reference to financial ability to make the repayment.

Section 302A.521 Subd. 4 provides that the articles of incorporation or bylaws of a corporation either may prohibit indemnification or advances of expenses otherwise required by Section 302A.521 or may impose conditions on indemnification or advances of expenses in addition to the conditions contained in Subd. 2 and 3 including, without limitation, monetary limits on indemnification or advances of expenses, if the prohibition or conditions apply equally to all persons or to all persons within a given class. A prohibition or limit on indemnification or advances may not apply to or affect the right of a person to indemnification or advances of expenses with respect to any acts or omissions of the person occurring prior to the effective date of a provision in the articles of incorporation or the date of adoption of a provision in the corporation's bylaws establishing the prohibition or limit on indemnification or advances.

Section 302A.521 Subd. 5 provides that Section 302A.521 does not require, or limit the ability of a corporation to reimburse expenses, including attorneys' fees and disbursements, incurred by a person in connection with an appearance as a witness in a proceeding at a time when the person has not been made or threatened to be made a party to a proceeding

Section 302A.521 Subd. 6 further provides that:

(a) all determinations whether indemnification of a person is required because the criteria set forth in Subd. 2 have been satisfied and whether a person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 shall be made:

(1) by the board by a majority of a quorum, if the directors who are at the time parties to the proceeding are not counted for determining either a majority or the presence of a quorum;

(2) if a quorum under clause (1) cannot be obtained, by a majority of a committee of the board, consisting solely of two or more directors not at the time parties to the proceeding, duly designated to act in the matter by a majority of the full board including directors who are parties;

(3) if a determination is not made under clause (1) or (2), by special legal counsel, selected either by a majority of the board or a committee by vote pursuant to clause (1) or (2) or, if the requisite quorum of the full board cannot be obtained and the committee cannot be established, by a majority of the full board including directors who are parties;

(4) if a determination is not made under clauses (1) to (3), by the affirmative vote of the shareholders required by Section 302A.437 of the Minnesota Statutes, but the shares held by parties to the proceeding must not be counted in determining the presence of a quorum and are not considered to be present and entitled to vote on the determination; or

(5) if an adverse determination is made under clauses (1) to (4) or under paragraph (b), or if no determination is made under clauses (1) to (4) or under paragraph (b) within 60 days after (i) the later to occur of the termination of a proceeding or a written request for indemnification to the corporation or (ii) a written request for an advance of expenses, as the case may be, by a court in this state, which may be the same court in which the proceeding involving the person's liability took place, upon application of the person and any notice the court requires. The person seeking indemnification or payment or reimbursement of expenses pursuant to this clause has the burden of establishing that the person is entitled to indemnification or payment or reimbursement of expenses.

(b) With respect to a person who is not, and was not at the time of the acts or omissions complained of in the proceedings, a director, officer, or person possessing, directly or indirectly, the power to direct or cause the direction of the management or policies of the corporation, the determination whether indemnification of this person is required because the criteria set forth in Subd. 2 have been satisfied and whether this person is entitled to payment or reimbursement of expenses in advance of the final disposition of a proceeding as provided in Subd. 3 may be made by an annually appointed committee of the board, having at least one member who is a director. The committee shall report at least annually to the board concerning its actions.

Section 302A.521 Subd 7 allows a corporation to purchase and maintain insurance on behalf of a person in that person's official capacity against any liability asserted against and incurred by the person in or arising from that capacity, whether or not the corporation would have been required to indemnify the person against the liability under the provisions of section 302A.521 of the Minnesota Statutes.

Section 302A.521 Subd. 8 requires a corporation that indemnifies or advances expenses to a person in accordance with Section 302A.521 in connection with a proceeding by or on behalf of the corporation to report to the shareholders in writing the amount of the indemnification or advance and to whom and on whose behalf it was paid not later than the next meeting of shareholders.

Section 302A.521 Subd. 9 provides that nothing in Section 302A.521 shall be construed to limit the power of the corporation to indemnify persons other than a director, officer, employee, or member of a committee of the board of the corporation by contract or otherwise.

Pursuant to our bylaws, we may indemnify our directors and executive officers to the fullest extent not prohibited by any applicable law; provided, however, that we may modify the extent of such indemnification by individual contracts with our directors and executive officers; and, provided, further, that we shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless: (i) such indemnification is expressly required to be made by law; (ii) the proceeding was authorized by our Board of Directors; or (iii) such indemnification is provided by the Company, in our sole discretion, pursuant to the powers vested in the Company under any applicable law. We shall have the power to indemnify our other officers, employees and other agents as set forth in any other applicable law. Our Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as our board of directors shall determine.

In addition, our bylaws provide that we will advance to any person who was or is a party to a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the Company, prior to the final disposition of the proceeding, promptly following request therefore, all expenses incurred by any director or executive officer in connection with such proceeding; provided, however, that the advancement of expenses shall be made only upon delivery to the Company of an undertaking by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses. Notwithstanding the foregoing, unless otherwise determined, no advance shall be made by the Company to an officer of the Company (except by reason of the fact that such officer is or was a director of the Company in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made: (i) by a majority vote of directors who are not parties to the proceeding; (ii) by a committee of such directors designated by a majority vote of such directors; or (iii) if there are no such directors, or such directors so direct, by a written opinion from independent legal counsel, that the facts known to the decision making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company.

Our bylaws also provide that without the necessity of entering into an express contract, all rights to indemnification and advances to our directors and executive officers shall be deemed to be contractual rights and to be effective to the same extent and as if provided for in a contract between the Company and the director or executive officer. Any right to indemnification or advances granted to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if: (i) the claim for indemnification or advances is denied, in whole or in part; or (ii) no disposition of such claim is made within ninety (90) days of request therefore. The claimant in such enforcement action, if successful, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the Company shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under applicable law for the Company to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the Company (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the Company) for advances, the Company shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in the best interests of the Company, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. A determination by the Company (including the board of directors, independent legal counsel or the stockholders) that indemnification of the claimant is proper because he has met the applicable standard of conduct or that the claimant has not met such applicable standard of conduct shall not be a defense to the action nor shall it create a presumption that claimant has not met the applicable standard of conduct.
Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers, and controlling persons pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

The following is a summary of our transactions during the last three years involving sales of our securities that were not registered under the Securities Act:

On February 1, 2009, we entered into an employment agreement with Kirsten Doerfert, Vice President of Sales and Marketing, pursuant to which we granted her an option to purchase 100,000 shares of common stock at $.35 per share with 20,000 shares vested immediately and increments of 20,000 shares vesting upon reaching certain performance milestones. In addition, we granted Ms. Doerfert a warrant, vested immediately, to purchase 15,000 shares of common stock at $.46 per share as compensation for her consulting services prior to becoming an employee.

On March 27, 2009, we issued 125,000 shares of common stock to Cross Street Partners/Morrie Rubin as compensation in connection with raising up to $500,000 in new equity prior to June 30, 2009.

On April 6, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 to Russell H. Yaucher for his $25,000 investment in the Company.

On April 14, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 to Chad A. and Marianne K. Ruwe for their $25,000 investment in the Company.

On April 20, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Dean M. and Carol L. Ruwe for their $100,000 investment in the Company.

On April 21, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Richard J. Butler for his $100,000 investment in the Company.

On April 30, 2009 we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to James Dauwalter for his $100,000 investment in the Company.

On May 5, 2009 we issued 20,000 shares of common stock and a warrant to purchase 20,000 shares of common stock at $.65 to Gregory B. Graves for his $10,000 investment in the Company.

On May 15, 2009, we entered into an agreement with Peter Morawetz, a co-founder of the Company, a significant shareholder and a member of the board of directors, whereby Mr. Morawetz agreed to waive unpaid consulting fees in the amount of $84,600, relating to 2006 and prior years and, in exchange, would receive a cash payment of $30,000 and an option to purchase 75,000 shares of common stock at $.35 per share upon the Company raising an additional $3 million in equity. Mr. Morawetz is not required to participate in any way in the effort to raise $3 million.

On May 21, 2009, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.65 to Richard J. Butler for his additional $100,000 investment in the Company.

On June 10, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock to Citigroup FBO John Villas for his $25,000 investment in the Company.

On August 5, 2009, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.65 per share to Arnold A. Angeloni for his $25,000 investment in the Company.

On August 18, 2009, we issued 30,000 shares of common stock and a warrant to purchase 30,000 shares of common stock at $.65 per share to Peter G. Kertes for his $15,000 investment in the Company.

On August 24, 2009, we issued restricted shares under the 2008 Equity Incentive Plan to certain management and directors of the Company to reward them for past service and to incentivize them for future service. The shares are subject to forfeiture until the earlier of a Change in Control, as defined in the Plan, attainment of six consecutive quarters of a minimum of $250,000 in net income or attainment of a 30-day average trading volume of not less than 25,000 shares of common stock. The shares will forfeited to the Company if none of these "acceleration events" occurs by the 10th anniversary of the grant date. The shares granted are as follows:

Peter Morawetz, Director	100,000 shares
Thomas McGoldrick, Director	40,000 shares
Andrew Reding, Director	20,000 shares
Kevin Davidson, President and Chief Executive Officer	300,000 shares
Chad Ruwe, Chief Operating Officer	200,000 shares
Kirsten Doerfert, VP Sales and Marketing	75,000 shares
David Dauwalter, Direct of Product Management	50,000 shares

The value of these shares was determined to be $.50 per share, and the expense for their grant was recorded in August 2009.

In addition, on August 24, 2009, we issued 12,810 shares of restricted stock under the 2008 Equity Incentive Plan and a warrant to purchase 18,207 shares of common stock at $.46 per share to Alan Shuler as partial compensation under his consulting arrangement with the Company. The warrant has a term of five years and the shares are subject to forfeiture until the earlier of a Change in Control, as defined in the Plan, attainment of six consecutive quarters of a minimum of $250,000 in net income or attainment of a 30 day average trading volume of not less than 25,000 shares of stock. The shares will forfeited to the Company if none of these "acceleration events" occurs by the 10th anniversary of the grant date. The value of the warrant was determined to be $4,943 using the Black-Scholes valuation model with an expected term of five years, an expected volatility of 59%, a dividend rate of zero and a risk free interest rate of 2.5%. The value of the restricted shares was determined to be $6,405 at $.50 per share. These expenses were recorded in August 2009.

On September 8, 2009, we issued 100,000 common shares to a consulting firm for their consulting services.

On September 8, 2009, we issued 10,000 common shares and a warrant to purchase 10,000 shares at $.65 per share to an investor for his $5,000 investment in the Company.

On September 8, 2009, we issued 10,000 common shares and a warrant to purchase 10,000 shares at $.65 per share to an investor for her $5,000 investment in the Company.

On September 25, 2009, we issued 20,000 common shares and a warrant to purchase 20,000 shares at $.65 per share to an investor for her $10,000 investment in the Company.

On September 25, 2009, we issued 30,000 common shares and a warrant to purchase 30,000 shares at $.65 per share to co-investors for their $15,000 investment in the Company.

On September 30, 2009, we issued 80,000 common shares and a warrant to purchase 80,000 shares at $.65 per share to an investor for his $40,000 investment in the Company.

On October 2, 2009, we issued 30,000 common shares and a warrant to purchase 30,000 common shares at $.65 per share to a consultant for their consulting services.

On October 15, 2009, we issued 3,000 common shares and a warrant to purchase 3,000 common shares at $.65 per share to consultants for their consulting services.

On October 15, 2009, we issued 2,000 common shares and a warrant to purchase 2,000 common shares at $.65 per share to a consultant for her consulting services.

On October 26, 2009, we issued a note, convertible into 200,000 common shares, and a warrant to purchase 200,000 shares at $.65 per share to co-investors for their $100,000 investment in the Company.

On November 10, 2009, we issued 50,000 shares of its common stock and a warrant to purchase 50,000 shares of Common Stock at an exercise price of $.65 per share to an investor for his $25,000 investment in the Company.

In January 2010, we issued 19,090 restricted shares of common stock under the 2008 Equity Incentive Plan to a consultant as partial payment for his services.

In March 2010, we issued 350,000 shares of common stock as payment to three consultants for their investor relations consulting services.

In March and April 2010, we issued 274,550 shares of common stock and warrants for 274,550 shares of common stock, at an exercise price of $.65 per share, to 9 investors for their $137,275 investment in the Company.

In April 2010, we raised $90,000 from the sale of 180,000 Units under a private placement at $.50 per Unit. Each Unit consists of one share of common stock and a warrant to purchase one share of common stock at $.65 per share.

In June 2010, we raised $200,000 from the issuance of convertible debt to the parents of one of our officers. The debt bears interest at 12%, is due March 31, 2012 and is convertible into common stock at $.25 per share. We also issued a warrant to purchase 800,000 shares at an exercise price of $.46 per share in connection with this debt. The proceeds of this debt were used, in part, to pay off a $100,000 note plus interest and prepayment penalty totaling $43,600 to Asher Enterprises.

In July 2010, we issued 225,000 shares of common stock to four consultants in connection with fundraising and investor relations activities on behalf of the Company.

In July 2010, we issued 13,860 shares of restricted stock under the 2008 Equity Incentive Plan to our acting CFO in partial payment for his consulting services for the quarter ended June 30, 2010.

In July 2010, we issued 238,860 shares of common stock, with a value of $.22 per share, to 5 consultants in exchange for fund raising, financial consulting and investor relations services.

In August 2010, we issued a $50,000 Convertible Promissory Note to an investor. The note bears interest at 8%, matures in May 2011, and is convertible into common stock at 50% of the average of the three lowest closing prices in any 10 day trading period.

In September 2010, we issued a $100,000 Convertible Promissory Note to an investor. The note bears interest at 10%, matures in March 2012, and is convertible into common stock at $.18 per share.

In September 2010, we issued a $32,000 Convertible Debenture to the parents of one of our officers. The note bears interest at 12%, matures in March 2012 and is convertible into common stock at $.10 per share. We also issued a warrant to purchase 320,000 shares at $.46 per share, amended the noted dated in June 2010 to reduce the conversion price from $.25 to $.18 per share and issued a new warrant to purchase 1,111,112 shares at $.46 per share to replace the initial warrant for 800,000 shares at $.46 per share.

In September 2010, we issued 250,000 common shares with a value of $.22 per share, to an investment banker as partial compensation for their fund raising activities.

In September 2010, we issued 250,000 common shares to an investor in connection with his $25,000 investment in the Company. We also issued a warrant to purchase 250,000 common shares at $.17 per share.

On November 16, 2010, we issued 75,000 restricted shares, with a value of $.15 per share, to each of four members of the board of directors and also issued an option to purchase 85,000 shares at $.15 per share to the Chairman of the Board as compensation for their services on the board.

On January 7, 2011, we issued three convertible notes in the amount of $50,000 each to three individuals who had lent the Company $50,000 each. The notes bear interest at 10%, are convertible into common stock at $.084 to $.10 per share and have a 24 month maturity date. We also issued warrants to purchase 1,595,239 shares of common stock at $.20 per share in connection with this financing arrangement.

On February 7, 2011, we issued 150,000 shares of common stock and a warrant to purchase 150,000 shares of common stock at $.20 per share to an investor in return for his $15,000 investment in the Company.

On February 8, 2011, we issued 200,000 shares of common stock and a warrant to purchase 200,000 shares of common stock at $.20 per share to an investor in return for his $18,000 investment in the Company.

On February 11, 2011, we issued 666,667 shares of common stock and a warrant to purchase 666,667 shares of common stock at $.15 per share to an investor in return for his $15,000 investment in the Company.

On February 14, 2011, we issued a warrant to purchase 500,000 shares of common stock at $.15 per share to a consultant in return for their help in arranging financing.

On February 17, 2011, we issued 3,333,334 shares of common stock and a warrant to purchase 3,333,334 shares of common stock at $.15 per share (assigned to an affiliate of the investors) to two investors in return for their $250,000 investment in the Company.

On February 17, 2011, we issued a warrant for to purchase 400,000 shares at $.075 per share to a consultant in return for their help in raising funds.

On February 23, 2011, we issued 181,818 shares of common stock as a result of an institutional lender converting $10,000 in debt into common stock at a price determined by a formula in the loan agreement.

On March 3, 2011, we issued a warrant to purchase 100,000 shares at $.10 per share to a consultant for their support in selling the Company's products.

On March 7, 2011, we issued warrants to purchase 600,000 shares of common stock at $.10 per share to three individuals in return for their consulting services.

On March 15, 2011, we issued a warrant to purchase 200,000 shares at $.10 per share to a consultant as a partial payment of his prior executive recruiting services.

On March 15, 2011, we issued 588,235 shares of common stock and a warrant to purchase 588,235 shares of common stock at $.17 per share to an investor in return for his $50,000 investment in the Company.

On March 17, 2011, we issued 234,192 shares of common stock as a result of an institutional lender converting $10,000 in debt into common stock at a price determined by a formula in the loan agreement.

On March 23, 2011, we issued 117,647 shares of common stock and a warrant to purchase 117,647 shares of common stock at $.17 per share to an investor in return for his $10,000 investment in the Company.

On March 23, 2011, we issued 1,333,333 shares of common stock and a warrant to purchase 1,333,333 shares of common stock at $.15 per share to an investor in return for his $100,000 investment in the Company.

On March 25, 2011, we issued a warrant to purchase 100,000 shares of common stock at $.16 per share to a consultant in exchange for investor relations services.

On April 14, 2011, we issued 83,333 shares of common stock to the holder of a $100,000 convertible note as payment of prepaid interest as required under terms of the note.

On April 21, 2011, we issued 294,118 shares of common stock and a warrant to purchase 294,118 shares at $.17 per share to an investor in return for his $25,000 investment in the Company.

On April 22, 2011, we issued 75,000 shares of common stock to the holder of a $50,000 convertible note as payment of prepaid interest as required under terms of the note.

On May 2, 2011, we issued 294,118 shares of common stock and a warrant to purchase 294,118 shares at $.085 per share to an investor in return for his $25,000 investment in the Company.

On May 16, 2011, we issued 485,437 shares of common stock as a result of an institutional lender converting $8,000 in debt into common stock at a price determined by a formula in the loan agreement

On May 23, 2011, we issued 250,696 shares of common stock as a result of an institutional lender converting $7,000 in debt and $2,000 of accrued interest into common stock at a price determined by a formula in the loan agreement

On May 24, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares at $.12 per share to an investor in return for his $35,000 investment in the Company.

On July 1, 2011, we issued 250,000 shares of common stock and a warrant to purchase 250,000 shares at $.075 per share to an investor in return for his $15,000 investment in the Company.

On July 5, 2011 and July 11, 2011, we issued 333,334 total shares of common stock and a warrant to purchase 333,334 shares at $.075 per share to an investor in return for his $20,000 investment in the Company.

On July 12, 2011, we issued 571,149 shares of common stock and a warrant to purchase 571,149 shares at $.10 per share to an investor in return for his $40,000 investment in the Company.

On July 14, 2011, we issued 57,423 shares of common stock and a warrant to purchase 57,423 shares of common stock at $.10 per share to a consultant for his consulting services.

On July 26, 2011, we issued 1,250,000 shares of common stock and a warrant to purchase 1,250,000 shares at $.075 per share to an investor in return for his $75,000 investment in the Company.

On July 26, 2011, we issued 333,333 shares of common stock and a warrant to purchase 333,333 shares at $.075 per share to an investor in return for his $20,000 investment in the Company.

On July 26, 2011, we issued 333,333 shares of common stock and a warrant to purchase 333,333 shares at $.075 per share to an additional investor in return for his $20,000 investment in the Company.

On July 27, 2011, we issued 833,333 shares of common stock and a warrant to purchase 833,333 shares at $.075 per share to an investor in return for his $50,000 investment in the Company.

On August 2, 2011, we issued 166,667 shares of common stock and a warrant to purchase 166,667 shares at $.075 per share to an investor in return for his $10,000 investment in the Company.

On August 2, 2011, we issued 100,000 shares of common stock to an officer of the Company in connection with an exercise under a stock option agreement dated June 14, 2011.

On August 17, 2011, we issued 62,500 shares of common stock and a warrant to purchase 62,500 shares of common stock at $.25 per share to an investor in return for his $12,500 investment in the Company.

On August 31, 2011, we issued 475,000 shares of common stock and a warrant to purchase 475,000 shares of common stock at $.075 per share to a fund raising consultant.

On August 31, 2011, we issued 290,699 shares of common stock to a consultant as partial compensation for investor relations consulting work.

On September 15, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares of common stock at $.25 per share to an investor in return for his $100,000 investment in the Company.

On October 3, 2011, we issued 500,000 shares of common stock and a warrant to purchase 500,000 shares of common stock at $.25 per share to an investor in return for his $100,000 investment in the Company.

On October 6, 2011, we issued 100,000 shares of common stock and a warrant to purchase 100,000 shares of common stock at $.25 per share to an investor in return for his $20,000 investment in the Company.

On October 6, 2011, we issued 50,000 shares of common stock and a warrant to purchase 50,000 shares of common stock at $.25 per share to an investor in return for his $10,000 investment in the Company.

On October 11, 2011, we issued 575,000 shares of common stock to a consultant as sole compensation for investor relations consulting work.

On December 28, 2011, we issued 7,500,000 shares of common stock to Dr. Samuel Herschkowitz under a Note Purchase Agreement as security for our obligations under a promissory note also issued to Dr. Herschkowitz under that agreement.

Unless otherwise specified above, we believe that all of the above transactions were transactions not involving any public offering within the meaning of Section 4(2) of the Securities Act, since (a) each of the transactions involved the offering of such securities to a substantially limited number of persons; (b) each person took the securities as an investment for his/her/its own account and not with a view to distribution; (c) each person had access to information equivalent to that which would be included in a registration statement on the applicable form under the Securities Act; and (d) each person had knowledge and experience in business

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

See “Exhibit Index” below, which follows the signature pages to this registration statement.

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933 (the "Securities Act");

(ii) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus file with the Securities and Exchange Commission ("SEC") pursuant to Rule 424(b), if in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement; and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For purposes of determining liability under the Securities Act, to treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424;

(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer;

(iii) portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and

(5) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer under Rule 424(b)(1), or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the SEC declared it effective.

(6) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

(7) Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule430B or other than prospectuses filed in reliance on Rule430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(b)Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Mendota Heights, on January 24, 2012.

BIODRAIN MEDICAL, INC.

By: /s/ Kevin R. Davidson
Kevin R. Davidson
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kevin R. Davidson as his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, or any related registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and any other regulatory authority, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Kevin R. Davidson Kevin R. Davidson	President, Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial and accounting officer), and Director	January 24, 2012
/s/ Lawrence W. Gadbaw Lawrence W. Gadbaw	Chairman of the Board of Directors	January 24, 2012
/s/ Peter L. Morawetz Peter L. Morawetz	Director	January 24, 2012
/s/ Thomas J. McGoldrick Thomas J. McGoldrick	Director	January 24, 2012
/s/ Albert Emola Albert Emola	Director	January 24, 2012

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Incorporation, as amended (6)
3.2	Bylaws, as amended (8)
5.1	Opinion of Richardson & Patel LLP *
10.1	Employment Agreement between the Registrant and Kevin R. Davidson, dated October 4, 2006 (1)
10.2	Confidential Separation Agreement and Release between the registrant and Lawrence W. Gadbaw, dated August 13, 2008 (1)
10.3	Stock Option Agreement between the registrant and Kevin R. Davidson, dated June 5, 2008 (1)
10.4	Director Stock Option Agreement between the registrant and Thomas McGoldrick, dated August 22, 2006 (1)
10.5	Director Stock Option Agreement between the registrant and Andrew P. Reding, dated November 11, 2006 (1)
10.6	Consulting Agreement between the registrant and Marshall C. Ryan and Mid-State Stainless, Inc., dated June 2008 (1)
10.7	Patent Assignment by Marshall C. Ryan in favor of the registrant, dated June 18, 2008 (1)
10.8	Convertible Debenture between the registrant and Kevin R. Davidson, dated February 2, 2007 (1)
10.9	Convertible Debenture between the registrant and Peter L. Morawetz, dated February 2, 2007 (1)
10.10	Convertible Debenture between the registrant and Andrew P. Reding, dated February 2, 2007 (1)
10.11	Convertible Debenture between the registrant and Thomas McGoldrick, dated January 30, 2007 (1)
10.12	Convertible Debenture between the registrant and Andcor Companies, Inc., dated September 29, 2006 (1)
10.13	Convertible Debenture between the registrant and Carl Moore, dated March 1, 2007 (1)
10.14	Convertible Debenture between the registrant and Roy Moore, dated March 1, 2007 (1)

10.15	Form of Subscription Agreement (1)
10.16	Form of Registration Rights Agreement (1)
10.17	Form of Escrow Agreement (1)
10.18	Form of Warrant (1)
10.19	2008 Equity Incentive Plan (1)
10.20	Office Lease Agreement between the registrant and Roseville Properties Management Company, as agent for Lexington Business Park, LLC (1)
10.21	Employment Agreement between the registrant and David Dauwalter, dated August 11, 2008 (2)
10.22	Amendment No. 1 to Employment Agreement between the registrant and David Dauwalter, dated September 11, 2008 (2)
10.23	Consulting Agreement by and between the registrant and Andcor Companies, Inc., dated September 15, 2008 (2)
10.24	Consulting Agreement by and between the registrant and Taylor & Associates, Inc., dated August 15, 2008 (2)
10.25	Independent Contractor Agreement between Belimed, Inc. and the registrant, dated February 2, 2009 (3)
10.26	Supply Agreement between Oculus Innovative Sciences, Inc., and the registrant, dated February 20, 2009 (4)
10.27	Agreement between the registrant and Peter Morawetz, dated May 15, 2009 (5)
10.28	Amendment No. 1 to BioDrain Medical, Inc. 2008 Equity Incentive Plan (7)
10.29	Note Purchase Agreement between the registrant and Dr. Samuel Herschkowitz, dated December 20, 2011 *
23.1	Consent of Olsen Thielen & Co., Ltd. *
23.2	Consent of Richardson & Patel LLP (included as Exhibit 5.1)
24.1	Power of Attorney (included as part of the signature pages to this registration statement)

*Filed herewith.

(1) Filed on November 12, 2008 as an exhibit to our Registration Statement on Form S-1 and incorporated herein by reference.

(2) Filed on January 12, 2009 as an exhibit to Amendment No. 1 to our Registration Statement on Form S-1and incorporated herein by reference.

(3) Filed on April 6, 2009 as an exhibit to our Amendment No. 3 to our Registration Statement on Form S-1and incorporated herein by reference.

(4) Filed on July 1, 2009 as an exhibit to our Amendment No. 5 to our Registration Statement on Form S-1and incorporated herein by reference.

(5) Filed on August 12, 2009 as an exhibit to Amendment No. 7 to our Registration Statement on Form S-1and incorporated herein by reference.

(6) Filed on March 31, 2011 as an exhibit to our Annual Report on Form 10-K and incorporated herein by reference.

(7) Filed on June 15, 2011 as an exhibit to our Current Report on Form 8-K and incorporated herein by reference.

(8) Filed on November 23, 2011 as an exhibit to Amendment No. 1 to our Quarterly Report on Form 10-Q and incorporated herein by reference.

RICHARDSON & PATEL LLP
1100 Glendon Ave., Suite 850
Los Angeles, California 90024
Telephone (310) 208-1183
Facsimile (310) 208-1154

January 24, 2012

BioDrain Medical, Inc.
2060 Centre Pointe Boulevard, Suite 7
Mendota Heights, Minnesota 55120

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

We have acted as counsel for BioDrain Medical, Inc., a Minnesota corporation (the "Company"), in connection with the registration with the Securities and Exchange Commission on Form S-1 of an aggregate 9,196,667 shares of the Company's common stock (the "Shares"). In connection with this registration, we have reviewed the proceedings of the Board of Directors of the Company relating to the registration and the issuance of the Shares, the articles of incorporation and all amendments thereto of the Company, the bylaws of the Company and all amendments thereto, and such other documents and matters as we have deemed necessary to render the following opinion.

Based upon that review, it is our opinion that the Shares are legally issued, fully paid, and nonassessable.

We do not find it necessary for the purposes of this opinion to cover, and accordingly we express no opinion as to, the application of the securities or blue sky laws of the various states as to the issuance and sale of the Shares.

We consent to the use of this opinion in the registration statement filed with the Securities and Exchange Commission in connection with the registration of the Shares and to the reference to our firm under the heading "Legal Matters" in the registration statement.

Very truly yours,

RICHARDSON & PATEL LLP

/s/ Richardson & Patel LLP

NOTE PURCHASE AGREEMENT

This **Note Purchase Agreement** (the ***"Agreement"***) is made and entered into as of December 20, 2011, by and among BioDrain Medical, Inc., a Minnesota corporation (the ***"Company"***), and Dr. Samuel Herschkowitz or his designees (the ***"Purchaser"***).

WHEREAS, the Company currently requires funds to help finance its operations as it pursues its next round of equity financing; and

WHEREAS, the Purchaser is willing to advance funds to the Company in exchange for the issuance to the Purchaser of a promissory note evidencing the Company's obligation to repay the Purchaser's loan of the advanced funds, together with the issuance to the Purchaser of certain equity in the Company, all as provided in this Agreement.

NOW THEREFORE, the parties hereby agree as follows:

ARTICLE I

PURCHASE, SALE AND TERMS OF NOTE

1.01 The Note. The Company has authorized the issuance and sale to the Purchaser of the Company's Promissory Note in the original principal amount of $225,000. The Promissory Note shall be in the form set forth as Exhibit A hereto and is herein referred to as the "***Note***", which term shall also include any notes delivered in exchange or replacement therefor.

1.02 Purchase and Sale of Note. The Company agrees to issue and sell to the Purchaser, and, subject to and in reliance upon the representations, warranties, covenants, terms and conditions of this Agreement, and the Purchaser agrees to purchase the Note. Such purchase and sale shall take place at a closing (the "***Closing***") to be held at the offices of Goodwin Procter LLP, 620 Eighth Avenue, New York, New York, on the date hereof at 12:00 p.m., New York City time, or at such other time or place as may be mutually agreed upon by the Company and the Purchaser. Subject to Section 5.11, at the Closing, the Purchaser will deliver to the Company as payment in full for the Note the amount of $202,500 (representing the principal amount of the Note less a prepayment of interest thereon at a rate of 20% per annum accrued during the six (6) months following the Closing regardless of any pre-payment), by (i) a check payable to the Company's order, (ii) wire transfer of funds to the Company, or (iii) any combination of the foregoing. At the Closing, the Company will issue and deliver to the Purchaser the duly executed Note in the principal amount of $225,000.

1.03 No Usury. This Agreement and the Note issued pursuant to the terms of this Agreement are hereby expressly limited so that in no event whatsoever, whether by reason of deferment or advancement of loan proceeds, acceleration of maturity of the loan evidenced hereby, or otherwise, shall the amount paid or agreed to be paid to the Purchaser hereunder for the loan, use, forbearance or detention of money exceed the maximum interest rate permitted by the laws of the State of New York or the District of Colombia (Washington, DC). If at any time the performance of any provision hereof or the Note involves a payment exceeding the limit of the price that may be validly charged for the loan, use, forbearance or detention of money under applicable law, then automatically and retroactively, ipso facto, the agreed upon interest rate as set forth in the Note shall be reduced to such limit, it being the specific intent of the Company and the Purchaser that all payments under this Agreement or the Note are to be credited first to interest as permitted by law, but not in excess of (i) the agreed rate of interest set forth in the Note, or (ii) that permitted by law, whichever is the lesser, and the balance toward the reduction of principal. The provisions of this paragraph shall never be superseded or waived and shall control every other provision of this Agreement and the Note.

1.04 Issuance of Bonus Equity. Not later than thirty (30) days after the Closing, the Company shall file with the Securities and Exchange Commission (the "*SEC*") a registration statement (the "*S-1*") with respect to, and cause to be declared effective the registration under the Securities Act of 1933, as amended (the "*Securities Act*"), a number of shares of the Company's Class A Common Stock, par value $0.01 per share (the "*Common Stock*"), not less than would be required to issue the Equity Bonus, the shares issuable in payment of the Board Meeting Fees and the Additional Bonus should be Company opt for a partial repayment of the principal amount of the Note pursuant to Section 5.13 (the date of such registration being the "*Effective Date*"). Not later than March 15, 2012, the Company shall issue to the Purchaser, or as Purchaser shall direct, all of the shares comprising the all Equity Bonus shares and, if applicable, the Additional Bonus, which shares shall be free and clear of all liens, pledges or encumbrances, registered under the Securities Act, and freely tradeable without restriction. "*Equity Bonus*" means a number of shares of Common Stock with an aggregate Market Value of not less than $225,000 calculated at $0.15 per share or less. "*Market Value*" means either (i) the average of the three (3) lowest closing prices of the Common Stock published by Bloomberg L.P. for the forty-five (45) trading days preceding the Closing (the "*Average Trading Price*") or (ii) $0.15 (fifteen cents), whichever is lower. The Purchaser shall have no obligation to provide any additional consideration to the Company for the issuance of the Equity Bonus. The Company shall authorize and reserve sufficient shares of the Company's capital stock to be issued upon the issuance of the Equity Bonus and any Board Meeting Fees. As of the date hereof, the Market Value was $0.15 or less equaling $0. ____ per share[1] and the number of shares of Common Stock required to be included in the Equity Bonus is not less 1,500,000 shares of Common Stock (not including any Board Meeting Fees). Shares issuable as Board Meeting Fees may be issued, if necessary and with both parties' agreement, under a registration statement in Form S-8 under the Securities Act and the regulations promulgated thereunder.

ARTICLE II

CONDITIONS TO PURCHASER'S OBLIGATIONS

The obligation of the Purchaser to purchase and pay for the Note at the Closing is subject to the fulfillment or waiver, on or before the Closing, of each of the following conditions:

2.01 Representations and Warranties. Each of the representations and warranties of the Company set forth in Article III hereof shall be true in all material respects on the date of the Closing.

2.02 Performance by the Company. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before each Closing and shall have obtained all approvals, consents and qualifications necessary to complete the purchase and sale described herein.

2.03 Seniority of Obligations Under Note. The Company shall have delivered to Purchaser either (i) evidence satisfactory to Purchaser in its sole discretion that all debts of the Company have been repaid and that all related liens, encumbrances or other security interests of any nature have been discharged and released, in each case except for the obligations under the promissory notes in the aggregate principal amount of not more than $150,000 attached hereto as Exhibit B (the "***Permitted Notes***") or (ii) executed subordination agreements in form and substance satisfactory to Purchaser in its sole discretion from all holders of any indebtedness of the Company other than the holder of the Permitted Notes.

2.04 Delivery of Note. The Company shall have executed and delivered to the Purchaser the Note, in the form attached hereto as Exhibit A, evidencing the Company's indebtedness in the principal amount of $225,000.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Purchaser as follows, each of which representation and warranty is true and correct as of the date hereof:

3.01 Organization, Qualifications and Corporate Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Minnesota and is duly licensed or qualified to transact business as a foreign corporation and is in good standing in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification, except where the failure to be so licensed or qualified would not have a Material Adverse Effect (as defined below) on the business or assets of the Company. **"*Material Adverse Effect*"** shall mean any event, change, violation, inaccuracy, circumstance or effect that is, individually or in the aggregate, materially adverse to the condition (financial or otherwise), capitalization, properties, employees, assets (including intangible assets), business, operations or results of operations of the Company. The Company has the corporate power and authority to own and hold its properties and to carry on its business as now conducted and as presently proposed to be conducted, to execute, deliver and perform this Agreement and to issue, sell and deliver the Note. The Company does not own any equity interest, directly or indirectly, in any other entity, has never owned any such equity interest, and has never operated as a subsidiary or division of another entity.

3.02 Authorization of Agreements, Etc. The execution and delivery by the Company of this Agreement and the performance by the Company of its obligations hereunder and the issuance, sale and delivery of the Note have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Certificate of Incorporation of the Company, as amended, or the Bylaws of the Company, as amended, or will not result in a violation of any provision of any indenture, agreement or other instrument to which the Company, or any of its properties or assets is bound, or conflict with, result in a material breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge, restriction, encumbrance, or, to the Company's knowledge, claim of any nature whatsoever upon any of the properties or assets of the Company, the result of any of which would have a material adverse effect on the business of the Company.

3.03 Validity. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. The Note, when executed and delivered in accordance with this Agreement, will constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with its terms. The Note and the shares comprising the Equity Bonus and the Board Meeting Fee, when issued, sold and delivered in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and nonassessable.

3.04 Litigation. There is no action, suit, claim, proceeding or investigation pending or, to the Company's knowledge, threatened (possible employment) against or affecting the Company or any of its properties, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action or suit by the Company pending, threatened or contemplated against others.

3.05 Material Adverse Effect. Since December 31, 2010, there has occurred no Material Adverse Effect. Complete Disclosure. As of the Closing, the Company has made available to the Purchaser all the information that the Purchaser has requested in making his decision to acquire the Note. To the Company's knowledge, neither this Agreement nor any other documents or certificates furnished or to be furnished in connection herewith, when taken as a whole, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. The Company does not represent or warrant that it will achieve any financial projections provided to the Purchaser and represents only that such projections were made in good faith.

3.06 SEC Filings; Financial Statements. The Company has filed all forms, reports and documents required to be filed by it with the SEC (the "***Company SEC Reports***"). The Company SEC Reports (i) were prepared in accordance with either the requirements of the Securities Act or the Securities Exchange Act of 1934, as amended, as the case may be, and the rules and regulations promulgated thereunder, and (ii) did not, at the time they were filed, or, if amended, as of the date of such amendment, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Each of the financial statements (including, in each case, any notes thereto) contained in the Company SEC Reports are correct in all material respects, present fairly the financial condition and operating results of the Company as of the date(s) and during the period(s) indicated therein, and have been prepared in accordance with United States generally accepted accounting principles ("***GAAP***") applied on a consistent basis throughout the period indicated. Except as set forth in the most recent financial statements contained in the Company SEC Reports, the Company does not have any material liability (whether accrued, contingent or otherwise) other than liabilities not of the type required by GAAP to be reflected or reserved on a balance sheet prepared in accordance with GAAP.

3.07 Collateral. The Company is the sole legal and beneficial owner of the Collateral and has the right to pledge, sell, assign or transfer the same. This Agreement creates a valid security interest in favor of the Purchaser in the Pledged Shares and the Collateral and, when properly perfected by filing, shall constitute a valid and perfected, first priority, after the $150,000 already filed, security interest in the Collateral, free and clear of all liens or encumbrances of any kind. The taking possession by the Purchaser of the certificated securities evidencing the Pledged Shares will perfect and establish the first priority of the Purchaser's security interest in the Pledged Shares.

ARTICLE IV

COVENANTS

4.01 Advisor to the Board. Commencing on the date hereof and effective so long as any amount payable under the Note remains outstanding, the Purchaser or his designee is hereby appointed as a special advisor (the "***Board Advisor***") to the Board of Directors of the Company (the "***Board***"), and the Board Advisor shall be invited (upon not less than ten (10) Business Days' notice) to, but shall not be required to attend, all meetings of the Board. Upon the Purchaser's request, the Company shall cause the Board Advisor to be appointed to the Board. The Board Advisor shall also be entitled to invite one (1) additional person to attend Board meetings. The Company shall promptly reimburse the reasonable travel expenses of the Board Advisor incurred in connection with the Board Advisor's attendance at meetings of the Board. The Company shall pay to the Purchaser a fee of $3,500 for the Board Advisor's attendance at each such meeting of the Board (each, a "***Board Meeting Fee***"). The Board Meeting Fee shall be payable, at the Purchaser's election in its sole discretion, either in cash or in shares of Common Stock valued at Market Value (which, for the avoidance of doubt, shall be the lower of the Average Trading Price or $0.15), or in a combination thereof. Any shares comprising the Board Meeting Fee shall be (i) issued to Purchaser or its designee simultaneously with the issuance of the Equity Bonus, or, if the shares comprising the Equity Bonus have already been issued, within three (3) Business Days of the applicable Board meeting, and (ii) free and clear of all liens, pledges or encumbrances, registered under the Securities Act, and freely tradeable without restriction. Any Board Meeting Fee payable wholly or partly in cash shall be paid to Purchaser or its designee within three (3) Business Days following the applicable Board meeting.

4.02 Security. (a) As security for its obligations to the Purchaser under the Note (the "***Secured Obligations***"), the Company hereby pledges in favor of the Purchaser a number of shares of Common Stock having a Market Value of not less than $1,125,000 (the "***Pledged Shares***"), which number, as of the date hereof, not less than 7,500,000 shares of Common Stock. Promptly following the execution of this Agreement but in no event more than five (5) Business Days after the date hereof, the Company will deliver to the Purchaser a stock certificate evidencing the Pledged Shares together with a stock transfer power executed in blank by the Company. In the event there occurs any Event of Default (as defined in the Note), the Purchaser shall be entitled to enforce its security interest in the Pledged Shares and good, valid and unencumbered title to the Pledged Shares shall vest in the Purchaser. The Company shall then, at its expense, obtain and deliver to the Purchaser a legal opinion from legal counsel reasonably acceptable to the Purchaser confirming that (i) the Pledged Shares are registered under the Securities Act and freely tradeable without restriction and (ii) any legends upon the stock certificates evidencing the Pledged Shares may be removed. Upon the Purchaser's request, the Company will instruct the Company's transfer agent to re-issue in the Purchaser's name the stock certificate evidencing the Pledged Shares. Shares covered by S1 registration. The Company will provide, at its own expense, a copy of the legal opinion indicating that the shares are freely tradeable securities. Upon acceptance of the S1 filing by the SEC, the company will immediately release that legal opinion and send it to the purchaser.

(b) As further security for the Secured Obligations, the Company hereby grants to the Purchaser, behind the $150,000 already secured, a continuing security interest in, and a right to set off against, any and all right, title and interest of the Company in and to (i) all letters patent of the United States or any other country and all reissues and extensions thereof, (ii) all applications for letters patent of the United States or any other country and all divisions, continuations and continuations-in-part thereof, in each case whether now owned or existing or owned, acquired or arising hereafter, (the assets described in the foregoing clauses (i) and (ii) being collectively the "***Patents***"), (iii) any agreement, whether written or oral, providing for the grant by the Company of any right to manufacture, use or sell any invention covered by a Patent (the "***Patent Licenses***"), (iv) any proceeds of any of the Patents or Patent Licenses (the "***Proceeds***") and (v) any accounts receivable of the Company (such accounts receivable, together with the Proceeds, the Patents and Patent Licenses, being the "***Collateral***"). The Company shall not sell, transfer, assign or encumber in any manner any of the Patents or Patent Licenses without the prior written consent of the Purchaser, other than the $150,000 already secured.

(c) The Company shall execute and deliver to the Purchaser such agreements, assignments or instruments (including affidavits, notices, reaffirmations and amendments and restatements of existing documents) and do all such things, in each case as the Purchaser may reasonably deem necessary or appropriate, to assure to the Purchaser its security interests hereunder, including (i) such instruments as the Purchaser may from time to time reasonably request in order to perfect and maintain the security interests granted hereunder in accordance with the Uniform Commercial Code in effect from time to time in the State of New York or the applicable jurisdiction with respect to any applicable Collateral (the "***UCC***") and (ii) with respect to the Patents, a Notice of Grant of Security Interest in Patents for filing with the United States Patent and Trademark Office.

(d) In addition to the rights and remedies hereunder and under the Note, the Purchaser may, in compliance with Sections 9-620 and 9-621 of the UCC or otherwise complying with the requirements of applicable law of the relevant jurisdiction, accept or retain the Collateral in satisfaction of the Secured Obligations. Unless and until the Purchaser shall have provided such notices, however, the Purchaser shall not be deemed to have retained any Collateral in satisfaction of any Secured Obligations for any reason. In the event that the proceeds of any sale, collection or realization of the Collateral are insufficient to pay all amounts to which the Purchaser is legally entitled, the Company shall be liable for the deficiency, together with interest, together with the costs of collection and the fees, charges and disbursements of counsel.

4.03 Use of Proceeds; Access to Information. The proceeds of the purchase of the Note by the Purchaser shall be used by the Company to allow the Company to fund ongoing research and development activities and current liabilities. Not less than $20,000 of such proceeds shall be used by the Company in the three (3) months following the Closing for the creation of a new business plan and power point presentation as well as public relations and investor relations activities to raise public awareness about the Company and its stock listing. The creation of such business plan and power point presentation will be overseen by Joshua Kornberg, who will serve as an independent contractor and will invoice the Company for his services. The Company shall promptly provide to the Purchaser a detailed memorandum setting forth the use of proceeds from the purchase of the Note for the period ending May 30, 2012. Not less than five (5) Business Days prior to the first day of each month, the Company shall deliver to the Purchaser a detailed budget (the "***Budget***"), and in the event the Company's expenditures in any month exceed the projections in the Budget relating to such month by more than 20%, the Company shall promptly (but in any event within five (5) Business Days of such deviation) report such deviation to the Purchaser.

ARTICLE V

MISCELLANEOUS

5.01 No Waiver; Cumulative Remedies. No failure or delay on the part of any party to this Agreement in exercising any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

5.02 Amendments, Waivers and Consents. Any provision in this Agreement to the contrary notwithstanding, changes in or additions to this Agreement or the Note may be made, and compliance with any covenant or provision herein or therein set forth may be omitted or waived, if the Company shall obtain consent thereto in writing from the Purchaser.

5.03 Addresses for Notices, etc. Any notice required or permitted hereunder shall be given in writing and shall be conclusively deemed effectively given upon personal delivery or delivery by courier, or after transmission if sent by confirmed facsimile transmission, in each case addressed as set forth below each party's name on the signature page of this Agreement, or at such other address as the Company or the Purchaser may designate by advance written notice to the other party hereto.

5.04 Binding Effect; Assignment. The terms and conditions of this Agreement shall be binding upon and inure to the benefit of the Company and the Purchasers and their respective heirs, successors and assigns. The Company shall not assign this Agreement without the prior written consent of the Purchaser. The Purchaser may, at any time, assign this Agreement to any of his affiliates without the consent of the Company.

5.05 Headings; Interpretation. In this Agreement, (i) the meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined; (ii) the captions and headings are used only for convenience and are not to be considered in construing or interpreting this Agreement and (iii) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation". All references in this Agreement to sections, paragraphs, exhibits and schedules shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits and schedules attached hereto, all of which exhibits and schedules are incorporated herein by this reference. "***Business Day***" means a weekday on which banks are open for general banking business in New York City, New York.

5.06 No Finder's Fees. Each party represents that it neither is nor will be obligated for any finder's or broker's fee or commission in connection with the transactions contemplated by this Agreement, other than the Company paying Damian D'Adamo a 10% fee. The Purchaser agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's or broker's fee (and any asserted liability) for which the Purchaser is responsible. The Company agrees to indemnify and hold harmless the Purchaser from any liability for any commission or compensation in the nature of a finder's or broker's fee (and any asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

5.07 Survival of Representations and Warranties. All representations and warranties made in this Agreement or the Note or any other instrument or document delivered in connection herewith or therewith, shall survive the execution and delivery hereof or thereof, and the Closing, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Purchaser or the Company, as the case may be.

5.08 Prior Agreements. This Agreement constitutes the entire agreement between the parties and supersedes any other prior understandings or agreements concerning the subject matter hereof.

5.09 Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

5.10 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

5.11 Payment of Fees. All reasonable and documented expenses, including legal fees and out of pocket expenses of counsel for the Purchaser, related to the financing to which this Agreement and the Note relate, incurred by the Purchaser, up to an aggregate maximum amount of $6,500 (which amount may, at the Purchaser's discretion, be withheld from the amount required to be paid to the Company pursuant to Section 2.01), shall be promptly paid by the Company. The Company shall bear and be responsible for all legal and filing fees and other expenses associated with the S-1 and the issuance of the Equity Bonus.

5.12 Counterpart; Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement may be executed and delivered by facsimile, or by e-mail in portable document format (.pdf) and delivery of the signature page by such method will be deemed to have the same effect as if the original signature had been delivered to the other parties.

5.13 Pre-Payment. As provided in the Note, all amounts outstanding thereunder shall become due and payable if there occurs any Financing (as defined in the Note) prior to June 20, 2012. However, under such circumstances, the Company may, at its option, immediately repay $150,000 of the principal amount under the Note and defer the repayment of the remaining $75,000 of principal thereunder until June 20, 2012, provided that additional shares of Common Stock (the "***Additional Bonus***") be promptly issued to the Purchaser in an amount equal to 10% of the Equity Bonus (approximately but not less than 150,000 shares assuming a price of $0.15 per share and that the Equity Bonus consisted of 1,500,000 shares of Common Stock or more since the number of shares included in the Board Meeting Fees, if any, are yet to be determined pending the number of Board meetings attended).

5.14 Entire Agreement. This Agreement, together with the exhibit hereto and the Note, constitute the entire agreement and understanding of the parties with respect to the subject matter hereof and supersede any and all prior negotiations, correspondence, agreements, understandings duties or obligations between the parties with respect to the subject matter hereof.

5.15 Further Assurances. From and after the date of this Agreement, the Company and the Purchaser shall execute and deliver such instruments, documents or other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day, month and year first above written.

BIODRAIN MEDICAL, INC.

By: /s/ Kevin Davidson
Name: Kevin Davidson
Title: CEO

Address:

/s/ Samuel Herschkowitz
Dr. Samuel Herschkowitz

Address:

EXHIBIT A

Form of Note

PROMISSORY NOTE

$225,000 **DECEMBER 20, 2011**

Subject to the terms and conditions of this Note, for value received**, BIODRAIN MEDICAL, INC.**, a Minnesota corporation (the "***Borrower***"), hereby promises to pay to Dr. Samuel Herschkowitz (the "***Lender***"), the principal sum of Two Hundred Twenty-Five Thousand Dollars **(**$225,000**)** (the ***"Principal Amount"***), together with interest thereon accruing on and from the date hereof until the entire Balance is paid, at an annual rate (subject to Section 6 below) equal to **twenty percent (20.0%)**. Interest shall be calculated based on a 365-day year, compounded annually, but in no event shall the rate of interest exceed the maximum rate, if any, allowable under applicable law. "***Balance***" means, at the applicable time, the sum of all then outstanding principal of this Note, all then accrued but unpaid interest and all other amounts then accrued but unpaid under this Note. Interest on this note has already been paid leaving a net wired amount of $202,500 to the Borrower.

This promissory note (the ***"Note"***) is issued by the Borrower pursuant to that certain Note Purchase Agreement dated as of the date hereof (the ***"Purchase Agreement"***), entered into between the Borrower and the Lender, and is subject to, and Borrower and Lender shall be bound by, all the terms, conditions and provisions of the Purchase Agreement. This Note shall become due and payable on the earliest of (i) June 20, 2012, (ii) the date that is six (6) months following the date of the Closing (as defined in the Purchase Agreement) and (iii) thirty (30) days following the completion by the Borrower, in one transaction or in a series of related transactions, of a financing involving gross proceeds to the Borrower of $399,000 or more, regardless of whether such financing involves debt or equity or any other form, or any combination thereof (such financing being a "***Financing***" and such earliest date being the "***Maturity Date***"). Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

The following is a statement of the rights of Lender and the terms and conditions to which this Note is subject and to which the Lender, by acceptance of this Note, agrees:

1. Payment. The principal amount of this Note, all accrued and unpaid interest and all other amounts accrued under this Note shall, on the Maturity Date, be payable in cash. No interest shall be payable other than as set forth in the preceding sentence. All payments on account of principal and interest shall be made in lawful money of the United States of America at the principal office of the Lender, or such other place as the holder hereof may from time to time designate in writing to the Borrower.

2. Prepayment. Borrower may prepay this Note in whole or in part before it becomes due but in the event this Note is prepaid in whole prior to the Maturity Date, Borrower shall be required to prepay interest on the entire principal amount of this Note through the Maturity Date.

3. Application of Payments. All payments will be applied first to the repayment of accrued fees and expenses under this Note, then to accrued interest until all then outstanding accrued interest has been paid in full, and then to the repayment of principal until all principal has been paid in full. If after all applications of such payments have been made as provided in this paragraph, then the remaining amount of such payments that are in either case in excess of the aggregate Balance shall be returned to Borrower.

4. Transfer and Exchange. The holder of this Note may, prior to the Maturity Date, surrender such Note at the principal office of the Borrower for transfer or exchange. Within a reasonable time after notice to the Borrower from such holder of its intention to make such exchange and without expense to such holder, except for any transfer or similar tax which may be imposed on the transfer or exchange, the Borrower shall issue in exchange therefor another note or notes for the same aggregate principal amount as the unpaid principal amount of the Note so surrendered, having the same maturity and rate of interest, containing the same provisions and subject to the same terms and conditions as the Note so surrendered. Each new Note shall be made payable to such person or persons, or transferees, as the holder of such surrendered Note may designate, and such transfer or exchange shall be made in such a manner that no gain or loss of principal or interest shall result therefrom. The Borrower may elect not to permit a transfer of the Note if it has not obtained reasonably satisfactory assurance that such transfer: (a) is exempt from the registration requirements of, or covered by an effective registration statement under, the Securities Act of 1933, as amended, and the rules and regulations thereunder and (b) is in compliance with all applicable state securities laws, including without limitation receipt of an opinion of counsel, which opinion shall be reasonably satisfactory to the Borrower.

5. New Note. Upon receipt of evidence reasonably satisfactory to the Borrower of the loss, theft, destruction or mutilation of the Note, the Borrower will issue a new Note, of like tenor and amount and dated the date to which interest has been paid, in lieu of such lost, stolen, destroyed or mutilated Note, and in such event the Lender agrees to indemnify and hold harmless the Borrower in respect of any such lost, stolen, destroyed or mutilated Note.

6. Events of Default. Each of the following shall constitute an "***Event of Default***" hereunder:

(a) The Borrower shall fail to pay any principal, interest or other amount payable hereunder on the applicable due date and such failure continues for five (5) days;

(b) The Borrower shall (1) voluntarily terminate operations or apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of the Borrower or of all or a substantial part of the assets of the Borrower, (2) make a general assignment for the benefit of its creditors, (3) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (4) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (5) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Federal Bankruptcy Code or applicable state bankruptcy laws or (6) take any corporate action for the purpose of effecting any of the foregoing;

(c) Without the Borrower's application, approval or consent, a proceeding shall be commenced, in any court of competent jurisdiction, seeking in respect of the Borrower the liquidation, reorganization, dissolution, winding-up, or composition or readjustment of debt, the appointment of a trustee, receiver, liquidator or the like relief in respect of the Borrower or all or any substantial part of the assets of the Borrower, or other like relief in respect of the Borrower under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts; and, if the proceeding is being contested in good faith by the Borrower, the same shall continue undismissed, or unstayed and in effect for any period of ninety (90) consecutive days, or an order for relief against the Borrower shall be entered in any case under the Federal Bankruptcy Code or applicable bankruptcy laws;

(d) The Borrower shall violate, or be in default under, any material agreement, instrument or other document relating to any indebtedness for money borrowed, and such default persists beyond any applicable cure period;

(e) The Borrower's representations and warranties contained in the Note Purchase Agreement shall prove to have not been true in any material respect when made

(f) The Borrower shall be in material breach of any of covenant or agreement contained in the Note Purchase Agreement; or

(g) The Borrower's expenditures in any month shall exceed by more than twenty percent (20%) the projections in the Budget (as defined in the Note Purchase Agreement) relating to such month, and the Lender shall not have agreed in writing to such deviation within five (5) days of having been advised of such deviation by the Borrower.

Borrower shall have 10 days to cure any of the above defaults. If any Event of Default shall occur, and were not cured within 10 days, then, (i) at any time thereafter while such Event of Default is continuing, the Lender by written notice to the Borrower (the "***Default Notice***") may declare the entire unpaid principal amount of this Note, together with all accrued and unpaid interest thereon, to be due and payable immediately and (ii) the rate of interest accruing on the Balance shall increase to **twenty-four percent (24.0%)**.

9. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York.

10. Collection Expenses. The Borrower further agrees, subject only to any limitation imposed by applicable law, to pay all expenses, including reasonable attorneys' fees, incurred by the holder of this Note in endeavoring to collect any amounts payable hereunder which are not paid when due.

11. Amendment. Any provision of this Note, except for the principal amount of this Note and the interest rate in connection therewith, may be amended or waived with the written consent of Borrower and the Lender.

12. Waiver. Borrower hereby waives presentment, protest, demand for payment, notice of dishonor, and any and all other notices or demands in connection with the deliver, acceptance, performance, default, or enforcement of this Note.

13. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

14. Addresses for Notices, etc. Any notice required or permitted hereunder shall be given in writing and shall be conclusively deemed effectively given upon personal delivery or delivery by courier, or on the first business day after transmission if sent by confirmed facsimile transmission, in each case addressed (i) if to Borrower, as set forth below the Borrower's name on the signature page of this Note, and (ii) if to Lender, at Lender's address as set forth below Lender's name on the signature page of this Note, or at such other address as the Borrower or Lender may designate by advance written notice to the other parties hereto.

15. Headings; Interpretation. In this Note, (i) the meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined; (ii) the captions and headings are used only for convenience and are not to be considered in construing or interpreting this Note and (iii) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation". All references in this Note to sections, paragraphs, exhibits and schedules shall, unless otherwise provided, refer to sections and paragraphs hereof and exhibits and schedules attached hereto, all of which exhibits and schedules are incorporated herein by this reference.

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IN WITNESS WHEREOF, the undersigned has caused this instrument to be executed by its duly authorized officers as of the date first above written.

BORROWER:

BIODRAIN MEDICAL, INC.

By: _____
Name:
Title:

Address:

Acknowledged and agreed by Lender:

_____
Dr. Samuel Herschkowitz

Address:

EXHIBIT B

Permitted Notes

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form S-1 of our audit report, dated March 31, 2011, relating to the financial statements of BioDrain Medical, Inc. appearing in the Prospectus which are a part of this Registration Statement. We also consent to the reference to our Firm under captions "Experts" in the Prospectus.

Olsen Thielen & Co., Ltd.

/s/ Olsen Thielen & Co., Ltd.

St. Paul, Minnesota
January 18, 2012